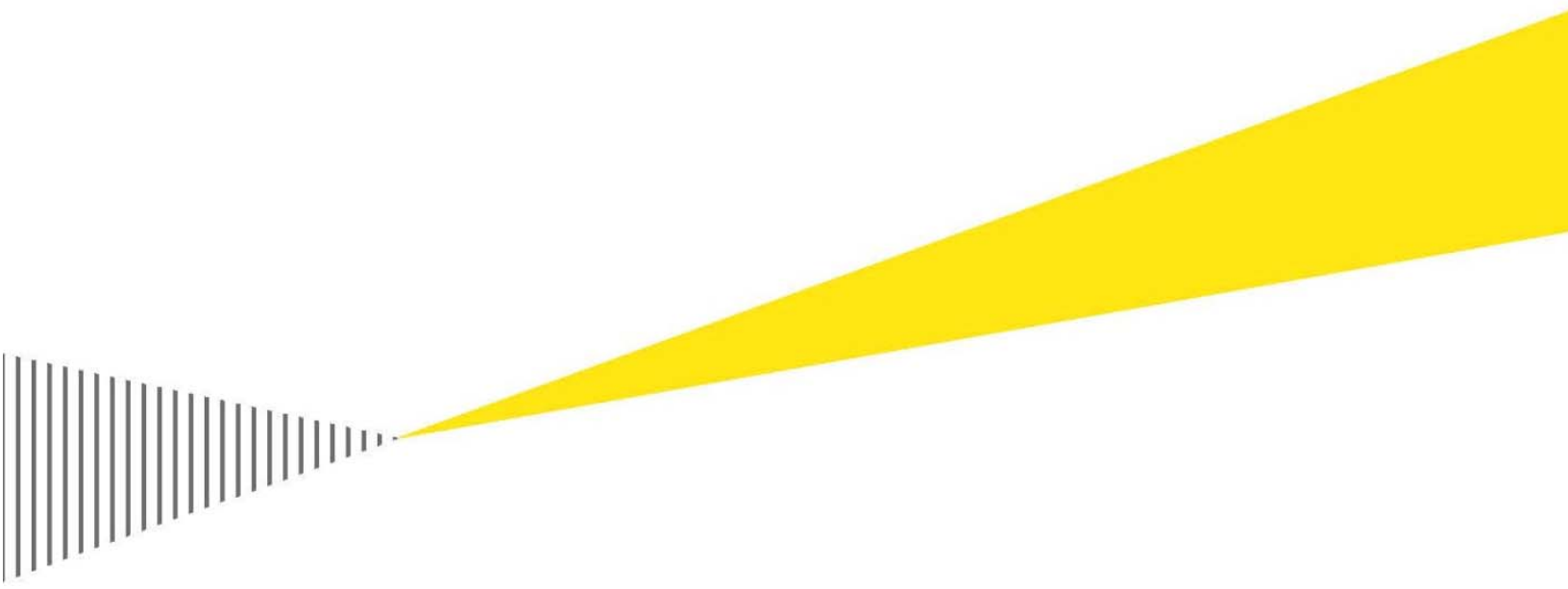


AUDITED FINANCIAL STATEMENTS AND
REPORTS AND SCHEDULES REQUIRED BY
THE UNIFORM GUIDANCE

University of the Virgin Islands
Year Ended September 30, 2016
With Report of Independent Auditors

Ernst & Young LLP



University of the Virgin Islands
Audited Financial Statements and
Reports and Schedules Required by the Uniform Guidance

Year Ended September 30, 2016

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Financial Statements



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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, 2016, 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, 2016, 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. 72, Fair Value Measurement and Application

As described in Note 5 to the financial statements, the University of the Virgin Islands adopted the provisions of Government Auditing Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application. Our opinion is not modified with respect to this matter.

Emphasis of a Matter

As more fully discussed in Note 18, the Government of the US Virgin Islands currently faces significant fiscal, economic and liquidity challenges, mainly as a result of the increasing governmental deficits and high levels of debt and pension obligations. The University was not organized as a self-sustaining entity and therefore its ability to repay its obligations and finance its operations is reliant on substantial financial and other support from the Government. There are no assurances that the Government's plans will be sufficient to avoid defaulting on its debts or that it will be able to continue to provide funding to the University. 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 4 through 19 and the Schedule of the University's Proportionate Share of the Net Pension Liability and Schedule of the University's Contributions on pages 59 and 60, 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 30, 2017, 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 30, 2017

University of the Virgin Islands

Management's Discussion and Analysis

Year Ended September 30, 2016

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, 2016, with selected comparative information for the year ended September 30, 2015. 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, 2016

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, 2016

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 2016:

- GASB 72, *Fair Value Measurement and Application* (GASB Statement No. 72)

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2016

Statement of Net Position

The statement of net position presents information on all the University's assets and liabilities. Net position 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, 2016

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.

	Fiscal Year 2016	Fiscal Year 2015	\$ Change
Assets			
Current assets	\$ 13,745,394	\$ 14,259,581	\$ (514,187)
Noncurrent assets:			
Capital assets, less accumulated depreciation	73,592,743	71,551,735	2,041,008
Other	62,707,982	60,342,982	2,365,000
Total assets	150,046,119	146,154,298	3,891,821
Deferred outflows of resources			
Deferred loss resulting from debt refinancing	5,063,323	5,313,686	\$ (250,363)
Deferred outflows of resources related to pension	22,184,693	6,527,197	15,657,496
Total deferred outflows	27,248,016	11,840,883	15,407,133
Liabilities			
Current liabilities	12,380,323	11,719,114	661,209
Noncurrent liabilities	165,249,685	143,392,467	21,857,218
Total liabilities	177,630,008	155,111,581	22,518,427
Deferred inflows of resources			
Deferred inflows related to pension	1,094,840	364,962	729,878
Total net position	\$ (1,430,713)	\$ 2,518,638	\$ (3,949,351)

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 \$13.7 million cover the current liabilities of \$12.4 million. The current ratio of 1.1 for fiscal year 2016 is a 0.1 decrease from 1.2 in fiscal year 2015. 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, 2016

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.

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 2016 and \$5.0 million in fiscal year 2015.

During fiscal year 2016, the University had construction in progress of \$2.7 million which is activity associated with the construction of the Medical School. The \$5.0 million in capital assets additions includes \$2.7 in construction in progress or CIP. The University entered into construction contract valued at \$19M for the construction of the Medical School facilities. As of September 30, 2016 outstanding commitments of \$14,545,096 had not yet been incurred.

Capital asset additions primarily represent replacement and improvements to existing buildings, as well as significant investments in equipment. Depreciation expense was \$3.0 and \$3.0 million for both fiscal years 2016 and 2015.

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, unearned revenue and the current portion of the long-term liabilities. Current liabilities totaled \$12.4 million on September 30, 2016, as compared to \$11.7 million on September 30, 2015. The overall increase of \$0.7 million in current liabilities is due in part to the new debt for the medical school and the increase in current principle amounts due on the older debt.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2016

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 \$21.9 million in fiscal year 2016 due to the increase of \$22.1 million in the University's portion of the Net Pension Liability.

Under a loan agreement executed June 2011 with the US Department of Education Capital Financing Loan program, the University was authorized to 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.

In 2016, the University increased its long-term debt by requesting additional draws against the School of Medicine loan. In February 2015, the University entered into a \$19 million loan with the US Department of Education against which \$2.0 million was drawn down in 2016. 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. No additional funds were drawn in 2016.

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

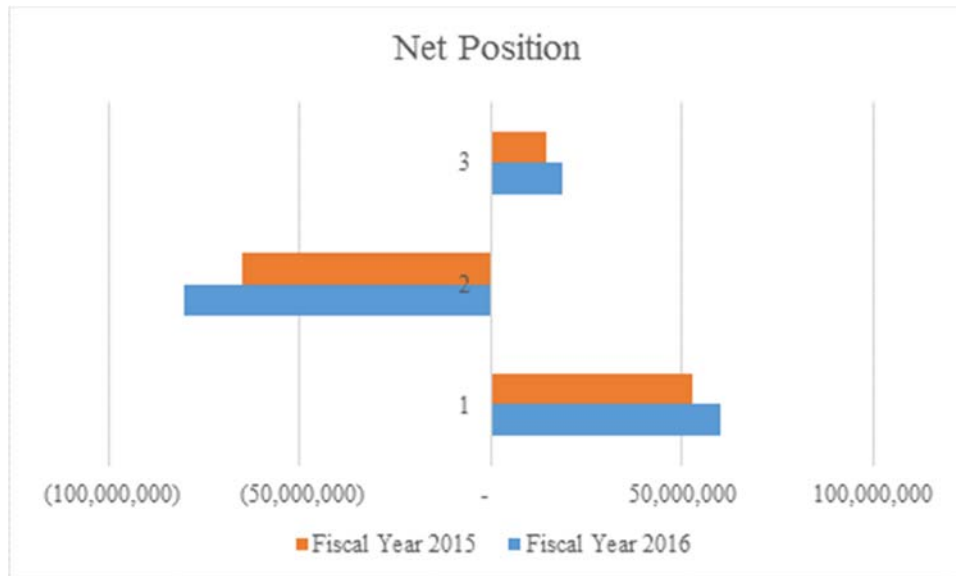
Net position represents the residual amount in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Total net positions at September 30, 2016 and 2015 was \$(1.4) million and \$2.5 million, respectively. The University's net position at September 30, 2016 and 2015 is summarized as follows:

University of the Virgin Islands

Management’s Discussion and Analysis (continued)

Year Ended September 30, 2016

	Fiscal Year 2016	Fiscal Year 2015
Net position:		
Restricted	\$ 59,956,484	\$ 52,578,205
Unrestricted	(80,298,111)	(64,767,558)
Net investment in capital assets	18,910,914	14,707,991
Total net position	\$ (1,430,713)	\$ 2,518,638



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.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2016

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.

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 2016, 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, 2016

A summarized comparison of the University's revenues, expenses and changes in net position for the years ended September 30, 2016 and 2015, follows:

	Fiscal Year 2016	Fiscal Year 2015	\$ Change
Operating revenues:			
Tuition and fees net of scholarship allowance	\$ 15,996,178	\$ 14,506,949	\$ 1,489,229
Grants and contracts	20,830,078	20,367,171	462,907
Auxiliary enterprises	3,146,509	2,887,638	258,871
Other operating revenues	1,648,931	1,453,372	195,559
Total operating revenues	<u>41,621,696</u>	<u>39,215,130</u>	<u>2,406,566</u>
Operating expenses	83,603,191	82,579,626	1,023,565
Operating loss	(41,981,495)	(43,364,496)	1,383,001
Nonoperating revenues (expenses):			
Local government appropriation	26,816,843	25,658,250	1,158,593
Federal Pell Grant Program	5,283,873	5,404,681	(120,808)
Other non-operating income	4,128,018	2,303,877	1,824,141
Interest on indebtedness	(2,888,795)	(2,276,120)	(612,675)
Net non-operating revenues	33,339,939	31,090,688	2,249,251
Loss before other revenues	(8,641,556)	(12,273,808)	3,632,252
Capital appropriations	4,692,205	4,692,205	-
Change in net position	(3,949,351)	(7,581,603)	3,632,252
Net position:			
Net position at beginning of year	2,518,638	10,100,241	(7,581,603)
Net position at end of year	<u>\$ (1,430,713)</u>	<u>\$ 2,518,638</u>	<u>\$ (3,949,351)</u>

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2016

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 2016 appropriations increased by 5% from that of the previous fiscal year. The University continues to aggressively seek funding from all possible sources consistent with its mission. The University 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 2016 had an increase in net tuition and fees of \$1.5 million. Local government appropriations increased by \$1.2 million due mainly to an increase 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 \$0.5 million increase in grants and contracts is related to an increase in grants awarded and received during fiscal year 2016, when compared to fiscal year 2015. The largest increase in grants was due to the \$20 million EPSCoR grant awarded in FY 2015 for which an increase in spending occurred in fiscal year 2016.

Auxiliary enterprises include the revenues derived from bookstore 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 2016, operating expenses totaled \$83.6 million including compensation and benefits of \$48.6 million, supplies and other expenditures of \$19.2 million, depreciation expense of \$3.0 million, scholarships of \$8.6 million, and utilities of \$3.3 million.

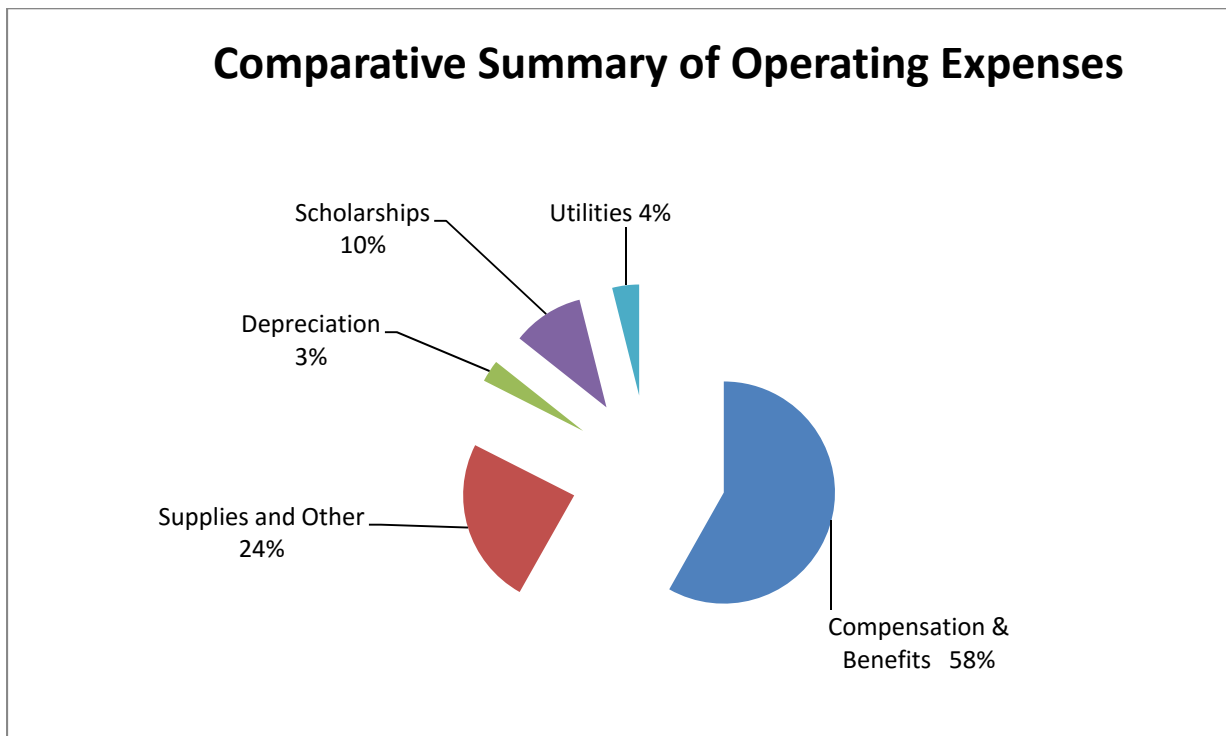
University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2016

A comparative summary of the University's operating expenses by object categories for the years ended September 30, 2016 and 2015 is as follows:

	Fiscal Year 2016	Fiscal Year 2015
Compensation and benefits	\$ 48,589,523	\$ 42,265,715
Supplies and other	20,157,784	24,557,208
Depreciation	2,950,328	2,982,890
Scholarships	8,639,219	8,728,197
Utilities	3,266,337	4,045,616
Total operating expenses	\$ 83,603,191	\$ 82,579,626



University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2016

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. The increase in compensation and benefits was due mainly to the recording of \$7.2 million in employer pension benefits expense.

Supplies and other expenses decreased due to the university's strict policy on holding departments to their budgets. Measures were put in place to ensure departments adhere to their respective budgets.

A comparative summary of the University's total operating expenses by functional classification for the years ended September 30, 2016 and 2015, is as follows:

Function	Fiscal Year 2016	Fiscal Year 2015
Instruction	\$ 16,587,402	\$ 15,883,647
Research	10,942,030	9,508,661
Public service	6,906,343	6,485,891
Academic support	5,029,644	5,408,984
Student services	4,051,639	4,633,800
Institutional support	14,099,739	13,202,009
Operation and maintenance of plant	6,612,986	9,478,025
Student aid	9,282,088	8,062,013
Auxiliary enterprises	6,973,273	6,759,491
Depreciation	2,950,328	2,982,890
Other	167,719	174,215
Total expenses by function	\$ 83,603,191	\$ 82,579,626

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.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2016

Factors Impacting Future Periods

During fiscal year 2016, the University continued to feel the impact of the negative economy. The University's President and his Cabinet continue to explore new ways to address the reduction in revenues in the face of increasing expenditures.

The University seeks to utilize online education as a method for better supporting students by providing additional options for studies. The offering of an online undergraduate degree would necessitate offering a full complement of general education courses. The University is in the early planning stages of offering many general education courses online through additional faculty training or external partnerships. UVI anticipates that these online degree programs could generate a significant.

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 2015-2016 period that will impact future periods include:

- **Through a process outlined by an ad hoc planning group**, and utilizing institutional partnerships, UVI recently developed a Ph.D. in Creative Leadership for Innovation and Change to expand learning options for UVI students. The program is designed to be self-sufficient, with the expectation of revenue generation to support University initiatives. The assessment plan for this program is currently in process and will be linked to the stated program objectives. The first Ph.D. cohort included 51 registrants from 120 applicants.
- **The University seeks to utilize online education** as a method for better supporting students by providing additional options for studies. The offering of an online undergraduate degree would necessitate offering a full complement of general education courses. The University is in the early planning stages of offering many general education courses online through additional faculty training or external partnerships. UVI anticipates that these online degree programs could generate a significant.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2016

- **Increase faculty productivity and effectiveness** by expanding research and faculty scholarship expectations and opportunities calls for the development of a **Research Policy** that requires faculty to present at least one article for publication every three academic years and to provide workshops in the mechanics of research and scholarship. Faculty publications and other scholarship activities are reported each year on an ROA as part of the Annual Faculty Evaluation process. The cardinal purpose of the UVI Research Policy is to organize and energize the UVI research community into optimizing the pre- and post-award processes across the institution.
- **Serving the community** is an important goal in *Pathways to Greatness*. The development of a community presidential advisory committee to keep the University informed, to build a community volunteer program. The external Presidential Advisory Council has 20 members representing business, community, and educational leaders from each island. This group provides advice to the President on key strategic initiatives and serve as advocates for the University. The Council's inaugural meeting convened in July 2016.

Financial Condition

The University is highly dependent on funding from the Government to repay obligations and fund its obligations. Approximately 43% of the University's total revenues are derived from government appropriations. The Government is in a significant net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations. In January and March 2017, the matching fund bonds and gross receipts tax bonds of the Government experienced credit rating downgrades due to the financial and budgetary challenges experienced by the Government. Such downgrades are likely to negatively impact the Government's ability to access credit markets or to access them at supportable rates in the foreseeable future. In March, 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five year plan of revenue initiatives and cost-cutting measures. The challenge of unfunded pension liabilities was addressed through increases in the contribution rates of the employers and members participating in the Government's multiple employer cost-sharing pension plan. The administrator of the pension plan, GERS, is an independent and separate agency of the Government. To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition and it is unknown what impact, if any, the Government's financial condition will have on the University. The University's budget for fiscal year 2018 is expected to be reduced 10% by the Government.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2016

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, 2016

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,282,430	\$ 60,830
Accounts receivable, net of allowance for doubtful accounts of \$1,403,993	8,301,826	-
Inventories	502,313	-
Prepaid expenses and other current assets	658,825	-
Total current assets	13,745,394	60,830
Noncurrent assets:		
Restricted cash and cash equivalents	152,162	-
Restricted deposits with trustee	4,450,711	-
Students loans receivable, net of allowance for doubtful accounts of \$336,144	269,411	-
Investments at fair value		10,897,403
Restricted investments at fair value	56,839,630	-
Loan receivable, RT Park	996,068	-
Capital assets, net	73,592,743	-
Total noncurrent assets	136,300,725	10,897,403
Total assets	150,046,119	10,958,233
Deferred outflows of resources		
Deferred loss resulting from debt refinancing	5,063,323	-
Unrealized pension contributions and losses	22,184,693	-
Total deferred outflows of resources	27,248,016	
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	4,829,379	-
Unearned revenue	4,162,390	-
Current portion of long-term liabilities	3,388,554	-
Total current liabilities	12,380,323	-
Noncurrent liabilities:		
Long-term debt	76,737,393	-
Accrued vacation	2,976,958	-
Net pension liability	85,271,734	-
Other long-term liabilities	263,600	-
Total noncurrent liabilities	165,249,685	-
Total liabilities	177,630,008	-

(Continued)

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

September 30, 2016

	University	Component Unit
Deferred inflow of resources		
Deferred amounts related to pension	1,094,840	—
Total deferred inflows of resources	1,094,840	—
Net position		
Invested in capital assets, net of related debt	18,910,914	—
Restricted nonexpendable	9,702,600	—
Restricted expendable:		
Grants	24,088,087	—
Scholarships	12,261,816	—
Loans	887,184	—
Debt service	9,390,617	—
Other	4,206,125	—
Unrestricted (deficit)	(80,878,056)	10,958,233
Total net position	\$ (1,430,713)	\$ 10,958,233

See accompanying notes.

University of the Virgin Islands

Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2016

	University	Component Unit
Revenues		
Operating revenues:		
Tuition and fees (net of scholarship allowance of \$366,914)	\$ 15,996,178	\$ —
Federal grants and contracts	17,293,003	—
State grant and contracts	3,537,075	—
Auxiliary enterprises	3,146,509	—
Other	1,648,931	—
In-kind contribution	—	175,459
Total operating revenues	41,621,696	175,459
Expenses		
Salaries:		
Faculty	10,316,384	—
Exempt staff	13,168,381	—
Nonexempt wages	8,195,571	—
Benefits	16,909,187	—
Scholarships	8,639,219	—
In-kind contribution	—	175,459
Contributions to the University	—	500,000
Utilities	3,266,337	—
Supplies and other services	19,237,075	76,106
Depreciation	2,950,328	—
Other expenses	920,709	—
Total operating expenses	83,603,191	751,565
Operating loss	(41,981,495)	(576,106)

(Continued)

University of the Virgin Islands

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

Year Ended September 30, 2016

	University	Component Unit
Nonoperating revenues (expenses):		
Local government appropriation	26,816,843	—
Federal Pell Grant Program	5,283,873	—
Gifts	431,878	—
Net investment income	3,696,140	956,688
Interest on indebtedness	(2,888,795)	—
Total nonoperating revenues, net	33,339,939	956,688
Decrease in net position before capital appropriations	(8,641,556)	380,582
Capital appropriations	4,692,205	—
Decrease in net position	(3,949,351)	380,582
Net position at beginning of year	2,518,638	—
Net position at end of the year	\$ (1,430,713)	\$ 380,582

See accompanying notes.

University of the Virgin Islands

Statement of Cash Flows

Year Ended September 30, 2016

	University
Cash flows from operating activities	
Tuition and fees	\$ 15,338,486
Grants and contracts	21,000,306
Auxiliary enterprises and other	4,454,490
Payments to suppliers and vendors	(19,649,810)
Payments to employees	(31,863,503)
Payments for utilities	(3,266,337)
Payments for benefits	(9,708,558)
Payments for scholarships	(8,639,219)
Net cash used in operating activities	(32,334,145)
Cash flows from noncapital financing activities	
Local government appropriations	26,816,843
Federal Pell Grant Program	4,671,559
Endowment gifts	431,878
Net cash provided by noncapital financing activities	31,920,280
Cash flows from capital and related financing activities	
Capital appropriations	4,692,205
Purchases of capital assets	(4,980,921)
Purchases of capital debt	2,025,168
Principal paid on capital debt	(2,028,578)
Interest paid on capital debt	(2,712,182)
Decrease in deposits held with bond trustees	342,282
Net cash provided by capital and related financing activities	(2,662,026)
Cash flows from investing activities	
Proceeds from sales and maturities of investments	4,206,055
Investment income	535,694
Purchases of investments	(1,976,552)
Net cash provided by investing activities	2,765,197
Net change in cash and cash equivalents	(310,694)
Cash and cash equivalents at beginning of year	4,745,286
Cash and cash equivalents at end of year	\$ 4,434,592

(Continued)

University of the Virgin Islands
Statement of Cash Flows (continued)

Year Ended September 30, 2016

	University
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	\$ (41,981,495)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	2,950,328
Bad debt expenses	(88,378)
Pension expense	7,200,629
Changes in assets and liabilities, net:	
Grants and contracts receivables	170,227
Student receivables	(558,926)
Other accounts receivables	(507,079)
Inventories	254,507
Prepaid expenses and other current assets	(143,237)
Accounts payable and accrued liabilities	651,211
Unearned revenue	(98,766)
Accrued vacation	(183,167)
Net cash used in operating activities	\$ (32,334,145)

See accompanying notes.

University of the Virgin Islands

Notes to Financial Statements

September 30, 2016

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, 2016

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, 2016

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, 2016

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, 2016

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. Interest cost capitalized amounted to \$73,749 for the year ended September 30, 2016. 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, 2016

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

Capital Assets (continued)

<u>Description</u>	<u>Capitalization Threshold</u>
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

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 represent 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 GASB 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 and inflows of resources related to pensions. The University reports in the Deferred Outflows of Resources and in the Deferred Inflows 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, 2015, and before October 1, 2016.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

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, 2016, approximately \$4,162,390 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. 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, 2016

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 is designated for academic and research programs and initiatives, and capital programs. For FY 2016, 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, 2016

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, 2016

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

Effect of Recent GASB Statements

Under GASB Statement No. 72, Fair Value Measurement and Application, (GASB 72) the University values investments at quoted market prices when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services. Fair value is described as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at a measurement date. GASB 72 establishes a hierarchy of inputs for valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security.

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

September 30, 2016

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 years:

Statement Number		Adoption Required in Fiscal Year
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
77	Tax Abatement Disclosures	2017
78	Pensions Provided Through Certain Multi-Employer Defined Benefit Pension Plans	2017
80	Blending Requirements for Certain Component Units	2017
81	Irrevocable Split-Interest Agreements	2018
83	Certain Asset Retirement Obligations	2019
84	Fiduciary Activities	2020
85	Omnibus 2017	2018
86	Certain Debt Extinguishment Issues	2018
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	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, 2016

2. Blended Component Unit Condensed Financial Information

Following is the Foundation's condensed financial information for fiscal year 2016:

Condensed information from Statement of Net Position

Current assets	\$ 1,874,635
Non-current assets excluding capital assets	56,991,792
Capital assets, less accumulated depreciation	<u>113,000</u>
Total assets	<u>58,979,427</u>
Current liabilities	—
Total liabilities	<u>31,936,110</u>
Net position:	
Restricted nonexpendable	9,702,600
Restricted expendable	<u>17,348,716</u>
Total net position	<u><u>\$ 27,051,316</u></u>

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

Operating expenses	<u>\$ (2,474,761)</u>
Operating loss	(2,474,761)
Non-operating revenues	<u>4,022,468</u>
Change in net position	1,547,707
Net position:	
Net position at beginning of year	<u>25,503,609</u>
Net position at end of year	<u><u>\$ 27,051,316</u></u>

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

September 30, 2016

2. Blended Component Unit Condensed Financial Information (continued)

Operating activities

Payments to suppliers and vendors	\$ (126,097)
Payments for scholarships	<u>(2,348,664)</u>
Net cash used in operating activities	(2,474,761)

Noncapital financing activities

Endowment gifts	<u>365,570</u>
Net cash provided by noncapital financing activities	365,570

Investing activities

Proceeds from sales and maturities of investments	3,206,506
Investment income	535,694
Purchases of investments	<u>(1,683,522)</u>
Net cash provided by investing activities	<u>2,058,678</u>
Net change in cash and cash equivalents	(50,513)

Cash and cash equivalents at beginning of year	<u>631,172</u>
Cash and cash equivalents at end of year	<u><u>\$ 580,659</u></u>

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

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, 2016, 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, 2016, cash and cash equivalents amounted to approximately \$4.3 million and restricted cash and cash equivalents amounted to approximately \$0.2 million.

4. Accounts Receivable

The University's accounts receivable as of September 30, 2016, are composed of the following:

U.S. Virgin Islands Government	\$ 364,028
U.S. Federal Government	3,048,833
Students	2,576,532
Due from related party (Tech Park), <i>see Note 15</i>	160,000
Other	<u>3,556,426</u>
	9,705,819
Less allowance for doubtful accounts	<u>(1,403,993)</u>
Accounts receivable, net	<u>\$ 8,301,826</u>

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

September 30, 2016

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.

Investments are recorded at fair value in accordance with the GASB Statement No. 72, Fair Value Measurement and Application. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The University measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.
- *Level 2:* Inputs are other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.
- *Level 3:* Inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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

September 30, 2016

5. Investments

At September 30, 2016, the University had the following recurring fair value measurements:

	Fair Value			
	Measurement	Level 1	Level 2	Level 3
Equity Securities	\$ 2,958,238	\$ 2,958,238	\$ –	\$ –
Mutual Funds	581,486	581,486	–	–
Fixed income Securities	30,014	–	30,014	–
Alternative strategies:	–			
Common Fund - Multi Strategy Bond Fund	17,061,572	–	–	17,061,572
Common Fund - Multi Strategy Equity Fund	34,464,284	–	–	34,464,284
Private Capital Fund	1,744,036	–	–	1,744,036
Total	\$ 56,839,630	\$ 3,539,724	\$ 30,014	\$ 53,269,892

At September 30, 2016, the Reichhold Foundation had the following recurring fair value measurements:

	Fair Value		
	Measurement	Level 1	Level 2
Corporate Bonds and US Debt Securities	\$ 3,598,477	\$ –	\$ 3,598,477
Equity	4,493,964	4,493,964	–
Mutual Funds	2,804,962	2,804,962	–
Total	\$ 10,897,403	\$ 7,298,926	\$ 3,598,477

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Equity securities – Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Mutual funds – Investments in mutual funds are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which market prices are readily available.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

5. Investments (continued)

Fixed income securities – Investments in fixed income securities are classified as Level 2, since their pricing is based on multiple sources of information that include market data and/or quoted prices from either market that are not active or are for the identical or similar assets in an active market.

Alternative strategies – The Foundation invests in certain alternative strategies that are essentially funds of funds. The Multi-Strategy Bond Fund and the Multi-Strategy Equity Fund are classified as Level 3, since these contain underlying investments for which their pricing is based on multiple sources of information that include market data and/or quoted prices from either markets that are not active or are for the identical or similar assets in an active market, as well as underlying investments for which valuation is based on unobservable inputs. Commonfund’s marketable funds pricing and valuation processes are built upon a base of independent third-party pricing for the majority of fund holdings. Independent third-party pricing sources are used to price all security positions for which a readily determinable market price is available. Securities for which a third-party pricing sources is not available are priced on a “fair value” basis, subject to review and approval by the Fair Value Committee. Investments in third party investment funds are valued based on the most recent NAV reported by the fund. The Foundation can make redemptions from the Multi-Strategy funds on a monthly basis upon five business days’ notice.

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:

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

September 30, 2016

5. Investments (continued)

Interest-Rate Risk (continued)

Years Until Maturity	<1	1-2	3-5	6-10	11-15	16+	Total
Corporate bonds	\$ 30,014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,014
Total	\$ 30,014	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,014

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, 2016, the University's credit quality distribution for securities was as follows:

	<u>Carrying Value</u>	<u>Standard & Poor's Rating</u>
Corporate bonds	\$ 30,014	Not rated
Total	<u>\$ 30,014</u>	

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, 2016, 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.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

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.

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.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

8. Capital Assets

Changes in capital assets for the year ended September 30, 2016, are as follows.

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 7,485,112	\$ —	\$ —	\$ 7,485,112
Construction-in-progress	1,805,219	2,649,685	—	4,454,904
Total capital assets not being depreciated	<u>9,290,331</u>	<u>2,649,685</u>	<u>—</u>	<u>11,940,016</u>
Capital assets being depreciated:				
Land improvements	2,824,128	—	—	2,824,128
Buildings, fixed equipment, improvements and infrastructure	92,228,901	1,714,133	—	93,943,034
Equipment and library materials	13,947,250	643,172	(257,282)	14,333,140
Total capital assets being depreciated	<u>109,000,279</u>	<u>2,357,305</u>	<u>(257,282)</u>	<u>111,100,302</u>
Less accumulated depreciation:				
Land improvements	(2,029,761)	(53,879)	—	(2,083,640)
Buildings, fixed equipment, improvements and infrastructure	(36,289,489)	(1,846,203)	—	(38,135,692)
Equipment and library materials	(8,419,625)	(1,050,241)	241,623	(9,228,243)
Total accumulated depreciation	<u>(46,738,875)</u>	<u>(2,950,323)</u>	<u>241,623</u>	<u>(49,447,575)</u>
Total capital assets being depreciated, net	<u>62,261,404</u>	<u>(593,018)</u>	<u>(15,659)</u>	<u>61,652,727</u>
Total capital assets, net	<u>\$ 71,551,735</u>	<u>\$ 2,056,667</u>	<u>\$ (15,659)</u>	<u>\$ 73,592,743</u>

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

9. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended September 30, 2016, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Less Amounts Due Within One Year	Noncurrent liabilities
Notes payable - HBCU	\$ 54,533,649	\$ 2,025,167	\$ 1,876,987	\$ 54,681,829	\$ 1,982,228	\$ 52,699,601
Notes payable - First Bank	23,224,192	-	-	23,224,192	-	23,224,192
Notes payable - other	1,085,904	-	151,591	934,313	120,713	813,600
Total notes payable	78,843,745	2,025,167	2,028,578	78,840,334	2,102,941	76,737,393
Accrued vacation	4,411,337	-	148,766	4,262,571	1,285,613	2,976,958
Other long-term liabilities	243,300	20,300	-	263,600	-	263,600
Total	\$ 83,498,382	\$ 2,045,467	\$ 2,177,344	\$ 83,366,505	\$ 3,388,554	\$ 79,977,951

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 was authorized to drawdown 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 had requested the maximum allowed therefore no advances were requested under the Series 2011-2, and under the Series 2011-3 during fiscal year 2016. 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 variable and 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, 2016, the amount outstanding was \$19,103.

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

September 30, 2016

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, 2016, the amount outstanding was \$915,209. 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, 2016, the interest expense was \$2,888,795. 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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending September 30,			
2017	\$ 2,102,941	\$ 2,677,585	\$ 4,780,526
2018	2,202,502	2,606,371	4,808,873
2019	3,434,484	2,511,495	5,945,979
2020	3,545,144	2,400,835	5,945,979
2021	3,689,309	2,256,671	5,945,980
2022-2026	20,112,320	9,241,164	29,353,484
2027-2031	23,527,603	5,449,456	28,977,059
2032-2036	15,807,706	1,482,524	17,290,230
2037-2041	3,801,507	300,086	4,101,593
2042-2045	616,819	29,561	646,380
Total	<u>\$ 78,840,335</u>	<u>\$ 28,955,748</u>	<u>\$ 107,796,083</u>

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, 2016, the University was in compliance with the required covenants.

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

September 30, 2016

11. Leases

The University has several non-cancelable operating leases, primarily for the facilities being used by the University's Small Business Development Center and Virgin Islands Development and Disabilities (VIUCEDD) 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, 2016, are as follows:

Year ending September 30,	
2017	\$ 271,351
2018	280,647
2019	290,268
2020	300,226
2021	310,531
Total minimum lease payments	\$ 1,453,023

Total rent expense related to these agreements amounted to approximately \$195,027 for the year ended September 30, 2016.

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, 2016, the University had accrued \$4,262,571 for vacation.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

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, 2016, 2015, and 2014 were \$2,503,196, \$2,314,476, and \$2,336,456, respectively.

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

Effective October 1, 2014, the University implemented GASB 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 GASB 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, 2016

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 \$1,500,992 for the year ended September 30, 2016.

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

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

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

13. Retirement Plans (continued)

Contribution Information (continued)

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, 2015 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, 2016, amounted to \$8,671,233.

Pension Liability

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

Total Net Pension Liability of the Plan	University Proportionate Share Percentage	University Pension Liability
\$4,071,660,837	2.0943%	\$85,271,734

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

13. Retirement Plans (continued)

Pension Liability (continued)

The net pension liability at September 30, 2016 was measured as of September 30, 2015, 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 \$85.3 million or 2.0943% of the system-wide liability. At September 30, 2016, the University's proportion increased by 0.0472 percentage points from its proportion reported as of September 30, 2015.

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>	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 2,165,028	\$ —
Net difference between projected and actual investment earnings on pension plan investments	1,591,960	—
Changes in assumptions	15,809,930	—
Changes in proportion and differences between contributions and proportionate share of contributions	1,116,783	1,094,840
Contributions subsequent to measurement date	1,500,992	—
	<u>\$22,184,693</u>	<u>\$1,094,840</u>

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

September 30, 2016

13. Retirement Plans (continued)

Deferred Outflows and Inflows of Resources (continued)

Amounts of \$1,500,992 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, 2017. 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:

2017	\$4,897,215
2018	4,897,215
2019	4,897,215
2020	4,897,215

Actuarial Assumptions

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

Inflation:	2.50%
Salary Increases:	3.25% including inflation
Investment rate of return:	3.84% 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, 2016

13. Retirement Plans (continued)

Investment Rate of Return

The long-term expected rate of return of 7.0% 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, 2015, are summarized in the following table:

<i>Asset Class</i>	Target Allocation	Long-Term Expected Real Rate of Inflows
Domestic Equity	28%	6.82%
International Equity	10%	8.44%
Fixed Income	26%	1.72%
Cash	4%	1.12%
Alternatives	32%	6.5%
Total Asset Class	<u>100%</u>	

Discount Rate

The discount rate used to measure total pension liability was 3.84% as of September 30, 2015. 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, 2016 and 2017. Based on these assumptions, the pension plan’s fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.0% 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, 2015, that rate was 3.71%.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

13. Retirement Plans (continued)

Sensitivity to Changes in the Discount Rate

Following is a schedule of net pension liability for the Plan calculated using the discount rate of 3.84%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.84%) or one percentage point higher (4.84%) than the current rate:

Proportionate Share for University	1% Decrease (2.84%)	Current Discount (3.84%)	1% Increase (4.84%)
Net pension liability	\$4,758,924,284	\$4,071,660,837	\$3,504,899,199

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

14. Functional Information

The University's operating expenses by functional classification as of September 30, 2016, were as follows:

Functional classification	Salaries and benefits	Supplies and other services	Scholarships and other services	Utilities	Depreciation	Other expenditures	Total
Instruction	\$ 14,302,149	\$ 2,073,946	\$ 44,981	\$ 33,571	\$ –	\$ 132,755	\$ 16,587,402
Research	5,276,000	4,715,103	506,089	108,011	–	336,827	10,942,030
Public service	4,446,896	2,342,149	8,673	44,541	–	64,084	6,906,343
Academic support	3,871,369	923,720	137,427	900	–	96,228	5,029,644
Student services	2,363,401	1,166,126	9,617	496,168	–	16,327	4,051,639
Institutional support	12,905,476	965,290	–	75,385	–	153,588	14,099,739
Operation and maintenance of plant	4,139,692	480,513	–	1,988,338	–	4,443	6,612,986
Student aid	213,165	74,619	8,462,523	–	–	531,781	9,282,088
Auxiliary enterprises	1,148,849	5,110,429	112,778	519,423	–	81,794	6,973,273
Depreciation	–	–	–	–	2,950,328	–	2,950,328
Other	–	–	–	–	–	167,719	167,719
	\$ 48,666,997	\$ 17,851,895	\$ 9,282,088	\$ 3,266,337	\$ 2,950,328	\$ 1,585,546	\$ 83,603,191

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

15. Related Party Transactions

As of September 30, 2016, the University was owed approximately \$1,156,068 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.

Appropriations from the Government for the year ended amounted to \$31,507,048.

16. 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.

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.

17. 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.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

17. Risk Management (continued)

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:

Coverage	Deductible	Policy Limit
Real and personal property:		
Windstorm	\$500,000 per event	\$40 million per event
Flood	\$500,000 per event	\$40 million per event
Earthquake	\$500,000 per event	\$40 million per event
All other	\$10,000 per event	\$40 million per event
Automobile	–	\$1 million per event
Comprehensive general liabilities	–	\$1 million per event
Professional liability	–	\$1 million per event
First excess general liability	–	\$900,000
Officers and Directors	–	\$1 million

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

18. Financial Condition

The University is highly dependent on funding from the Government to repay obligations and fund its obligations. Approximately 43% of the University's total revenues are derived from government appropriations. The Government is in a significant net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations. In January and March 2017, the matching fund bonds and gross receipts tax bonds of the Government experienced credit rating downgrades due to the financial and budgetary challenges experienced by the Government. Such downgrades are likely to negatively impact the Government's ability to access credit markets or to access them at supportable rates in the foreseeable future. In March, 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five year plan of revenue initiatives and cost-cutting measures. The challenge of unfunded pension liabilities was addressed through increases in the contribution rates of the employers and members participating in the Government's multiple employer cost-sharing pension plan. The administrator of the pension plan, GERS, is an independent and separate agency of the Government. To date, revenues pledged for debt service have not been significantly impacted by

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2016

18. Financial Condition (continued)

the Government's financial condition and it is unknown what impact, if any, the Government's financial condition will have on the University. The University's budget for fiscal year 2018 is expected to be reduced 10% by the Government. There can be no assurance that the Government's actions will be sufficient to permit continued funding of the University such that its operations and activities will not be curtailed or ceased in the future.

19. Subsequent Events

At its session on June 22, 2017, the Middle States Commission on Higher Education acted:

- To accept the progress report.
- To reaffirm accreditation and to acknowledge the institution's participation in the Collaborative Implementation Project. To commend the institution for the quality of the self-study process and report.

The next evaluation visit is scheduled for 2025-2026.

Management is not aware of any subsequent event that could significantly impact the financial statements.

Required Supplementary Information

University of the Virgin Islands

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

September 30, 2016

	2016*	2015*	2014*
University's proportion of the Net Pension Liability	2.0943%	2.0471%	2.1137%
University's proportionate share of the Net Pension Liability	\$85,271,734	\$63,173,875	\$57,914,485
University's covered-employee payroll	\$7,230,037	\$6,526,549	\$6,245,067
University's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	1179%	968%	927%
Plan fiduciary net position as percentage of the total pension liability	20%	27%	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, 2016

	2016*	2015*	2014*	2013*
Contractually required contributions	\$1,500,992	\$1,531,380	\$1,401,719	\$1,372,722
Contributions in relation to the contractually required contributions	1,500,992	1,531,380	1,401,719	1,372,722
Contribution deficiency (excess)				
Covered-employee payroll	7,515,486	7,230,037	6,526,549	6,245,067
Contributions as a percentage of covered-employee payroll	20%	21%	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, 2016

Valuation Date: October 1, 2015

Measurement Date: September 30, 2015

Actuarially determined contribution rates are calculated as of September 30, 2015, 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	2.50%
Salary increases	3.25% including inflation
Investment rate of return	3.84%, 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, 2016, 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 30, 2017. We also included an emphasis-of-matter paragraph in our report on the financial statements related to the fiscal, economic and liquidity challenges of the Government of the US Virgin Islands and the fact that the University is reliant on the support from the Government.

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 have not been 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 2016-001 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 30, 2017

Single Audit Report

**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 the Uniform Guidance**

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, 2016. 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 federal statutes, regulations and the terms and conditions of its federal awards 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University of the Virgin Islands' 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 of the Virgin Islands 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, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance, and which are described in the accompanying schedule of findings and questioned costs as items **2016-002** related to activities allowed or unallowed and allowable costs/cost principles requirements for The Higher Education Institutional Aid Program and **2016-003** related to special tests and provisions (enrollment reporting) for the Student Financial Assistance Cluster. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the University of the Virgin Islands 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 a 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items, **2016-002** related to activities allowed or unallowed and allowable costs/cost principles requirements for The Higher Education Institutional Aid Program and **2016-003** related to special tests and provisions (enrollment reporting) for the Student Financial Assistance Cluster, which we consider to be significant deficiencies.

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the University of the Virgin Islands as of and for the year ended September 30, 2016, and have issued our report thereon dated June 30, 2017, 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 the Uniform Guidance 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, 2017

University of the Virgin Islands
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

CFDA No.	Federal Grantor/Program or Cluster Title/CFDA Number	Student Financial Assistance Cluster	Research & Development Cluster	Higher Education Institutional Aid Program	Other Federal Expenditures	Total Expenditures	Amount Provided to Subrecipients
STUDENT FINANCIAL ASSISTANCE CLUSTER:							
UNITED STATES DEPARTMENT OF EDUCATION (ED)							
<i>U.S. Department of Education (ED) Direct Programs:</i>							
84.007	FEDERAL SUPPLEMENTAL EDUCATIONAL OPPORTUNITY GRANTS	\$ 59,334	\$ -	\$ -	\$ -	\$ 59,334	\$ -
84.033	FEDERAL WORK-STUDY PROGRAM	82,028	-	-	-	82,028	-
84.038	PERKINS LOAN PROGRAM	-	-	-	-	-	-
	Contributions (Note 2):						
	Loans Outstanding as of October 1, 2015	124,105	-	-	-	124,105	-
	New Loans Issued in Fiscal Year 2016	12,522	-	-	-	12,522	-
84.063	FEDERAL PELL GRANT PROGRAM	5,283,873	-	-	-	5,283,873	-
84.268	FEDERAL DIRECT STUDENT LOANS	4,958,040	-	-	-	4,958,040	-
TOTAL UNITED STATES DEPARTMENT OF EDUCATION (ED)		10,519,901	-	-	-	10,519,901	-
RESEARCH AND DEVELOPMENT CLUSTER:							
UNITED STATES DEPARTMENT OF AGRICULTURE (USDA)							
<i>U.S. Department of Agriculture (USDA) Direct Programs:</i>							
10.025	PLANT & ANIMALS DISEASE PEST CONTROL & ANIMAL CARE	-	60,298	-	-	60,298	-
10.202	COOPERATIVE FORESTRY RESEARCH	-	47,385	-	-	47,385	-
10.203	PAYMENTS TO AGRICULTURAL EXPERIMENT STATIONS UNDER HATCH ACT	-	1,163,610	-	-	1,163,610	-
10.308	RESIDENT INSTRUCTION GRANTS FOR INSULAR AREA ACTIVITIES	-	652,784	-	-	652,784	219,426
10.311	BEGINNING FARMER & RANCHER DEVELOPMENT PROGRAM	-	(23,338)	-	-	(23,338)	-
10.322	DISTANCE EDUCATION GRANTS FOR INSTITUTION OF HIGHER ED/INSULAR	-	48,087	-	-	48,087	-
10.500	COOPERATIVE EXTENSION SERVICE	-	1,161,363	-	-	1,161,363	-
10.902	SOIL AND WATER CONSERVATION	-	2,416	-	-	2,416	-
10.905	PLANT MATERIALS FOR CONSERVATION	-	8,284	-	-	8,284	-
10.215	SUSTAINABLE AGRICULTURE RESEARCH AND EDUCATION	-	10,072	-	-	10,072	10,072
<i>Subtotal Department of Agriculture Direct Programs:</i>		-	3,130,962	-	-	3,130,962	229,498
<i>U.S. Department of Agriculture (USDA) Pass Through From:</i>							
<i>University of Georgia</i>							
10.215	SUSTAINABLE AGRICULTURE RESEARCH AND EDUCATION	-	6,511	-	-	6,511	-
<i>University of Florida</i>							
10.304	Homeland Security-Agricultural	-	4,169	-	-	4,169	-
<i>University of Florida</i>							
10.309	Specialty Crop Research Initiative	-	18,604	-	-	18,604	-
<i>Department of Agriculture</i>							
10.170	Specialty Crop Block Program	-	22,305	-	-	22,305	-
<i>University of Puerto Rico</i>							
10.308	RESIDENT INSTRUCTION GRANTS FOR INSULAR AREA ACTIVITIES	-	2,190	-	-	2,190	-
<i>Subtotal Department of Agriculture Pass Through Programs:</i>		-	53,779	-	-	53,779	-
TOTAL UNITED STATES DEPARTMENT OF AGRICULTURE (USDA)		-	3,184,741	-	-	3,184,741	229,498

University of the Virgin Islands
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

CFDA No.	Federal Grantor/Program or Cluster Title/CFDA Number	Student Financial Assistance Cluster	Research & Development Cluster	Higher Education Institutional Aid Program	Other Federal Expenditures	Total Expenditures	Amount Provided to Subrecipients
UNITED STATES DEPARTMENT OF COMMERCE (DOC)							
<i>U.S. Department of Commerce (DOC) Direct Programs:</i>							
11.427	FISHERIES DEVELOPMENT & UTILIZATION	-	111,445	-	-	111,445	-
11.433	MARINE FISHERIES INITIATIVE	-	141,105	-	-	141,105	-
11.478	CENTER FOR SPONSORED COASTAL OCEAN RESEARCH COASTAL OCEAN	-	96,725	-	-	96,725	-
11.482	CORAL REEF CONSERVATION	-	56,742	-	-	56,742	4,511
11.999	MARINE DEBRIS PROGRAM	-	19,327	-	-	19,327	-
	<i>Subtotal U.S. Department of Commerce (DOC) Direct Programs:</i>	-	425,344	-	-	425,344	4,511
<i>U.S. Department of Commerce (DOC) Pass Through From:</i>							
<i>University of Puerto Rico</i>							
11.012	INTEGRATED OCEAN OBSERVING SYSTEM (IOOS)	-	146,820	-	-	146,820	-
<i>University of Puerto Rico</i>							
11.417	SEA GRANT SUPPORT NOAA	-	82,075	-	-	82,075	-
<i>HJR Reefscaping</i>							
11.427	FISHERIES DEVELOPMENT & UTILIZATION	-	16,888	-	-	16,888	-
<i>University of South Carolina</i>							
11.433	MARINE FISHERIES INITIATIVE	-	12,115	-	-	12,115	-
	<i>Subtotal U.S. Department of Commerce (DOC) Pass Through Programs:</i>	-	257,898	-	-	257,898	-
	TOTAL UNITED STATES DEPARTMENT OF COMMERCE (DOC)	-	683,241	-	-	683,241	4,511
UNITED STATES DEPARTMENT OF INTERIOR (DOI)							
<i>U.S. Department of Interior (DOI) Direct Programs:</i>							
15.630	FISH AND WILDLIFE SERVICE - COASTAL PROGRAM	-	20,031	-	-	20,031	-
15.805	ASSISTANCE TO STATE WATER RESOURCES RESEARCH INSTITUTES	-	143,889	-	-	143,889	29,950
15.954	NATIONAL PARK SERVICE CONSERVATION, PROTECTION, OUTREACH	-	9,846	-	-	9,846	-
	TOTAL UNITED STATES DEPARTMENT OF INTERIOR (DOI)	-	173,766	-	-	173,766	29,950
UNITED STATES NATIONAL AERONAUTICS AND SPACE ADMINISTRATION (NASA)							
<i>U.S. National Aeronautics and Space Administration (NASA) Direct Programs:</i>							
43.008	EDUCATION	-	205,704	-	-	205,704	-
	<i>Subtotal U.S. National Aeronautics and Space Administration (NASA) Direct Programs:</i>	-	205,704	-	-	205,704	-
<i>U.S. National Aeronautics and Space Administration (NASA) Pass Through From:</i>							
<i>College of Charlestown</i>							
43.008	EDUCATION	-	222,329	-	-	222,329	-
	<i>Subtotal U.S. National Aeronautics and Space Administration (NASA) Pass Through Programs:</i>	-	222,329	-	-	222,329	-
	TOTAL UNITED STATES NATIONAL AERONAUTICS AND SPACE AD (NASA)	-	428,033	-	-	428,033	-

University of the Virgin Islands
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

CFDA No.	Federal Grantor/Program or Cluster Title/CFDA Number	Student Financial Assistance Cluster	Research & Development Cluster	Higher Education Institutional Aid Program	Other Federal Expenditures	Total Expenditures	Amount Provided to Subrecipients
UNITED STATES NATIONAL SCIENCE FOUNDATION (NSF)							
<i>U.S. National Science Foundation (NSF) Direct Programs:</i>							
47.050	ASTRONOMICAL, ATMOSPHERIC, EARTH AND OCEAN SCIENCES	-	9,552	-	-	9,552	-
47.076	EDUCATION AND HUMAN RESOURCES	-	482,549	-	-	482,549	-
47.081	OFFICE OF EXPERIMENTAL PROGRAM TO STIMULATE COMPETITIVE RESEARCH	-	4,451,033	-	-	4,451,033	-
	<i>Subtotal U.S. National Science Foundation (NSF) Direct Programs:</i>	-	4,943,134	-	-	4,943,134	-
<i>U.S. National Science Foundation (NSF) Pass Through From:</i>							
<i>California Institute of Technology</i>							
47.049	MATHEMATICAL AND PHYSICAL SCIENCES	-	15,808	-	-	15,808	-
<i>Arkansas State University-Jonesboro</i>							
47.050	ASTRONOMICAL, ATMOSPHERIC, EARTH AND OCEAN SCIENCES	-	4,953	-	-	4,953	-
<i>Cornell University</i>							
47.050	ASTRONOMICAL, ATMOSPHERIC, EARTH AND OCEAN SCIENCES	-	11,241	-	-	11,241	-
<i>University of South Florida</i>							
47.079	OFFICE OF INTERNATIONAL SCIENCE AND ENGINEERING	-	71,840	-	-	71,840	-
<i>V. I. Department of Health</i>							
47.074	BIOLOGICAL SCIENCES	-	1,436	-	-	1,436	-
	<i>Subtotal U.S. National Science Foundation (NSF) Pass Through Programs:</i>	-	105,277	-	-	105,277	-
TOTAL UNITED STATES NATIONAL SCIENCE FOUNDATION (NSF)		-	5,048,411	-	-	5,048,411	-
UNITED STATES DEPARTMENT OF ENERGY (DOE)							
<i>Norfolk State University</i>							
81.123	NNSA HBCU Program	-	271,242	-	-	271,242	-
TOTAL UNITED STATES DEPARTMENT OF ENERGY (DOE)		-	271,242	-	-	271,242	-
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)							
<i>U.S. Department of Health and Human Services (HHS) Direct Programs:</i>							
93.243	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES PROJECTS OF REGIONAL SIGNIFICANCE	-	286,765	-	-	286,765	-
93.307	MINORITY HEALTH AND HEALTH DISPARITIES RESEARCH	-	886,537	-	-	886,537	-
93.859	PHARMACOLOGY, PHYSIOLOGY AND BIOLOGICAL CHEMISTRY RESEARCH	-	422,006	-	-	422,006	-
	<i>Subtotal U.S. Department of Health and Human Services (HHS) Direct Programs:</i>	-	1,595,308	-	-	1,595,308	-

University of the Virgin Islands
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

CFDA No.	Federal Grantor/Program or Cluster Title/CFDA Number	Student Financial Assistance Cluster	Research & Development Cluster	Higher Education Institutional Aid Program	Other Federal Expenditures	Total Expenditures	Amount Provided to Subrecipients
<i>U.S. Department of Health and Human Services (HHS) Pass Through From:</i>							
<i>Virgin Islands Government</i>							
93.243	SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES PROJECTS OF REGIONAL SIGNIFICANCE <i>Morehouse School of Medicine</i>	-	1,266	-	-	1,266	-
93.307	MINORITY HEALTH AND HEALTH DISPARITIES RESEARCH <i>Ponce School of Medicine</i>	-	90,860	-	-	90,860	-
93.859	PHARMACOLOGY, PHYSIOLOGY AND BIOLOGICAL CHEMISTRY RESEARCH <i>Subtotal U.S. Department of Health and Human Services (HHS) Pass Through Programs:</i>	-	12,748	-	-	12,748	-
TOTAL UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)		-	1,700,182	-	-	1,700,182	-
OTHER PROGRAMS:							
UNITED STATES DEPARTMENT OF AGRICULTURE (USDA)							
<i>U.S. Department of Agriculture (USDA) Direct Programs:</i>							
10.500	COOPERATIVE EXTENSION SERVICE	-	-	-	103,142	103,142	-
<i>U.S. Department of Agriculture (USDA) Pass Through Programs:</i>							
10.500	COOPERATIVE EXTENSION SERVICE	-	-	-	35,400	35,400	-
TOTAL UNITED STATES DEPARTMENT OF AGRICULTURE		-	-	-	138,541	138,541	-
UNITED STATES DEPARTMENT OF INTERIOR (DOI)							
<i>U.S. Department of Agriculture (USDA) Direct Programs except as noted:</i>							
15.875	ECONOMIC, SOCIAL AND POLITICAL DEVELOPMENT OF THE TERRITORIES	-	-	-	188,957	188,957	-
<i>U.S. Department of Education Pass Through From:</i>							
<i>North Carolina</i>							
15.875	ECONOMIC, SOCIAL AND POLITICAL DEVELOPMENT OF THE TERRITORIES	-	-	-	16,061	16,061	-
TOTAL UNITED STATES DEPARTMENT OF INTERIOR (DOI)		-	-	-	205,018	205,018	-
SMALL BUSINESS ADMINISTRATION							
<i>Small Business Administration Direct Programs:</i>							
59.037	SMALL BUSINESS DEVELOPMENT CENTER	-	-	-	626,034	626,034	-
TOTAL UNITED STATES DEPARTMENT OF COMMERCE (DOC)		-	-	-	626,034	626,034	-
UNITED STATES DEPARTMENT OF LABOR (DOL)							
<i>U.S. Department of Labor (DOL) Direct Programs:</i>							
17.504	CONSULTATION AGREEMENTS	-	-	-	356,866	356,866	-
TOTAL UNITED STATES DEPARTMENT OF LABOR (DOL)		-	-	-	356,866	356,866	-

University of the Virgin Islands
Schedule of Expenditures of Federal Awards
Year Ended September 30, 2016

CFDA No.	Federal Grantor/Program or Cluster Title/CFDA Number	Student Financial Assistance Cluster	Research & Development Cluster	Higher Education Institutional Aid Program	Other Federal Expenditures	Total Expenditures	Amount Provided to Subrecipients
UNITED STATES DEPARTMENT OF EDUCATION (ED)							
<i>U.S. Department of Education Direct Programs:</i>							
84.031	HIGHER EDUCATION INSTITUTION AID	-	-	2,086,055	-	2,086,055	-
84.287	TWENTY-FIRST CENTURY COMMUNITY LEARNING CENTERS	-	-	-	224,712	224,712	-
84.224	ASSISTIVE TECHNOLOGY	-	-	-	124,229	124,229	-
	<i>Subtotal U.S. Department of Education Direct Programs:</i>	-	-	2,086,055	348,941	2,434,996	-
<i>U.S. Department of Education Pass Through From:</i>							
<i>University of California</i>							
84.367	SUPPORTING EFFECTIVE INSTRUCTION STATE GRANT	-	-	-	19,202	19,202	-
	<i>Subtotal U.S. Department of Education Pass Through Programs:</i>	-	-	-	19,202	19,202	-
TOTAL UNITED STATES DEPARTMENT OF EDUCATION (ED)		-	-	2,086,055	368,142	2,454,198	-
UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)							
<i>U.S. Department of Health and Human Services (HHS) Direct Programs:</i>							
93.600	HEAD START	-	-	-	210,885	210,885	-
93.632	UNIVERSITY CTRS FOR EXCELLENCE DEVEL. DISABILITES (UAP)	-	-	-	577,002	577,002	-
	<i>Subtotal U.S. Department of Health and Human Services (HHS) Direct Programs:</i>	-	-	-	787,888	787,888	-
<i>U.S. Department of Education Pass Through From:</i>							
<i>Columbia University</i>							
93.249	PUBLIC HEALTH TRAINING CENTERS PROGRAM	-	-	-	44,238	44,238	-
	<i>Subtotal U.S. Department of Health and Human Services (HHS) Pass Through Program:</i>	-	-	-	44,238	44,238	-
TOTAL UNITED STATES DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)		-	-	-	832,125	832,125	-
TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 10,519,901	\$ 11,489,616	\$ 2,086,055	\$ 2,526,727	\$ 26,622,300	\$ 263,958

See accompanying notes.

University of the Virgin Islands

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2016

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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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, 2016, the University administered new loans related to the Federal Perkins Loan Program which are reported in the Schedule of Expenditures of Federal Awards. As there are continuing compliance requirements with respect to this loan program, the amounts are reported for loan programs on the Schedule of Expenditures of Federal Awards:

	Total Loans Outstanding as of	
	CFDA Number	September 30, 2016
Federal Perkins Loan Program	84.038 \$	133,094

During the fiscal year ended September 30, 2016, the University processed \$4,958,040 of new loans under the Federal Direct Student Loans Program (CFDA No. 84.268). Only new loans made during the fiscal year ended September 30, 2016, relating to this program are reported as expended.

3. Indirect Cost Rate

The University did not elect to use the 10% de minimus cost rate to calculate the University's indirect costs as allowable under the Uniform Guidance.

University of the Virgin Islands

Notes to Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2016

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, 2016

Section I - Summary of Auditor's Results

Financial Statements Section

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (*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

Internal control over major federal programs:

Material weakness(es) identified?

 yes X no

Significant deficiency(ies) identified?

 X yes 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 2 CFR 200.516(a)?

 X yes no

Identification of major programs:

CFDA number	Name of Federal Program or Cluster
84.031	Higher Education Institutional Aid
Various	Student Financial Assistance Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$798,669

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, 2016

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.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2016

Section II- Financial Statements Findings (continued)

Finding Number: 2016-001

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 2016 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.

Effect

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

Cause

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

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2016

Section II- Financial Statements Findings (continued)

Finding Number: 2016-001 (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 and required footnote disclosures. 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. See separately issued corrective action plan.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2016

Section III- Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by 2 CFR 200.516(a) of the Uniform Guidance (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs and material abuse).

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2016

Section III- Federal Award Findings and Questioned Costs

Finding Number: 2016-002

Program

84.031 Higher Education Institutional Aid

Award Numbers: P031B120594 and P031B150041

Award Name: Historically Black Colleges and Universities Program

Award Years: 10/1/2012 – 9/30/2017 and 10/1/2015 – 9/30/2020

Category

Internal Control / Compliance

Compliance Requirement

AB. Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Criteria

Activities Allowed or Unallowed and Allowable Costs/Cost Principles: As specified in 2 CFR part 200 and CAS and section C of A-21, Direct costs are those costs that can be identified specifically with a particular final cost objective, such as a Federal award, or other internally or externally funded activity, or that can be directly assigned to such activities relatively easily with a high degree of accuracy.

The organization must comply with the allowability of costs provisions of A-21, or limitations in the program agreement, program regulations, or program statute.

Furthermore, the organization must comply with the provisions included in 2 CFR part 200 and CAS (when applicable) as follows:

- (1) Direct charges to Federal awards were for allowable costs.
- (2) Departmental costs charged direct to institutional activities (i.e., research and development, instruction, other institutional activities) are consistently charged directly in like circumstances and are in accordance with the provisions of 2 CFR part 200 and CAS.
- (3) Costs were approved by the Federal awarding agency.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2016

Section III- Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-002 (continued)

Condition

After reviewing a sample of forty (40) items, we noted three (3) exceptions (2 for award #P031B150041 and 1 for award # P031B120594). For these items the University could not provide evidence showing that the level of effort for the Principal Investigator (PI) was being correctly applied.

Questioned Costs

\$45,024

Context

As part of our audit procedures we performed a payroll, level of effort and key personnel test. We obtained a copy of the grant agreement in order to determine the percentage to be charged to the Higher Education Institutional Aid Program. For the payroll test a statistical sample of 40 items was selected over a population of 8,080 items. The level of effort percentage was recalculated while performing the payroll test and corroborated with the grant agreement. While performing the described audit procedures we noticed differences between the agreement percentage of effort stated in the grant and the amount charged to the program. The exceptions identified were only related to the key personnel listed in the agreement.

Effect

Incorrect application of level of effort (either lower or higher) could result in improper and/or unallowed expenditures of funds being charged to a certain project or program.

Cause

Controls over the level of effort application to certain programs and/or funds as specified in the grant agreement are not in place or not working properly to ensure that the University complies with the level of effort requirement.

Recommendation

We recommend that the University establish procedures to ensure that the level of effort percentage is correctly applied and to retain the supporting documentation to prove that the University is complying with this requirement.

Management's Response

The University concurs with the finding. Please refer to separately issued corrective action plan.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2016

Section III- Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-003

Program

Student Financial Assistance Cluster (Various CFDA numbers)

Category

Internal Control / Compliance

Compliance Requirement

Special Tests and Provisions – Enrollment Reporting

Criteria

Under the Pell grant and Education Department (ED) loan programs, institutions must complete and return within 15 days the Enrollment Reporting roster file mailboxes sent by ED via National Student Loan Disbursement System (NSLDS) (*OMB No. 1845-0035*). The institution determines how often it receives the Enrollment Reporting roster file with the default set at a minimum of every 60 days. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website.

Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer. NSLDS will send a Late Enrollment Reporting notification e-mail if no updates are received by batch or online within 22 days after the date the roster was sent to the school. The Enrollment Reporting Summary Report (SCHER1) on the NSLDS website can be created. It shows the dates the roster files were sent and returned, the number of errors, date and number of online updates, and the number of late enrollment reporting notifications sent for overdue Enrollment Reporting rosters.

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

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2016

Section III- Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-003 (continued)

Condition

We selected a sample of forty (40) students (out of population of 359 students) during the audit period to test compliance and internal controls over the Enrollment reporting requirements. We noted that five (5) students selected for testing were not in compliance with the requirement as follows:

Exceptions and Instances of Noncompliance

The status change of the student was not reported to the U.S. Department of Education (DOE) within 60 days as required since it was never reported.

Item Number

122
186
270
304
82

We noticed several issues related to not reporting the students status on a timely basis while performing the cash management test. Refer below for instances:

Questioned Costs

Not applicable.

Context

As part of our audit procedures we performed an enrollment reporting test. We obtained the student population which requested graduations, withdrawals or never attended during fiscal year 2016. For the enrollment reporting test a statistical sample of 40 items was selected over a population 359 items. Since several exceptions were identified, we concluded that these exceptions were not isolated cases. Therefore, an additional sample was not selected and a finding was issued regarding this matter of non-compliance.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2016

Section III- Federal Award Findings and Questioned Costs (continued)

Finding Number: 2016-003 (continued)

Effect

An incorrect enrollment status and/or status date reported could cause a student's loan to be inappropriately delayed in being converted to repayment status or may lead to grant funds being disbursed to individuals who are not entitled to receive student financial assistance.

Cause

The process and controls over the enrollment reporting of the student status change to the U.S. Department of Education are not in place to ensure that the University timely complies with this requirement.

Recommendation

We recommend that the University establish procedures to ensure that enrollment status changes are updated and accurately reported in a timely manner in the NSLDS database.

Management's Response

The University concurs with the finding. Please refer to separately issued corrective action plan.

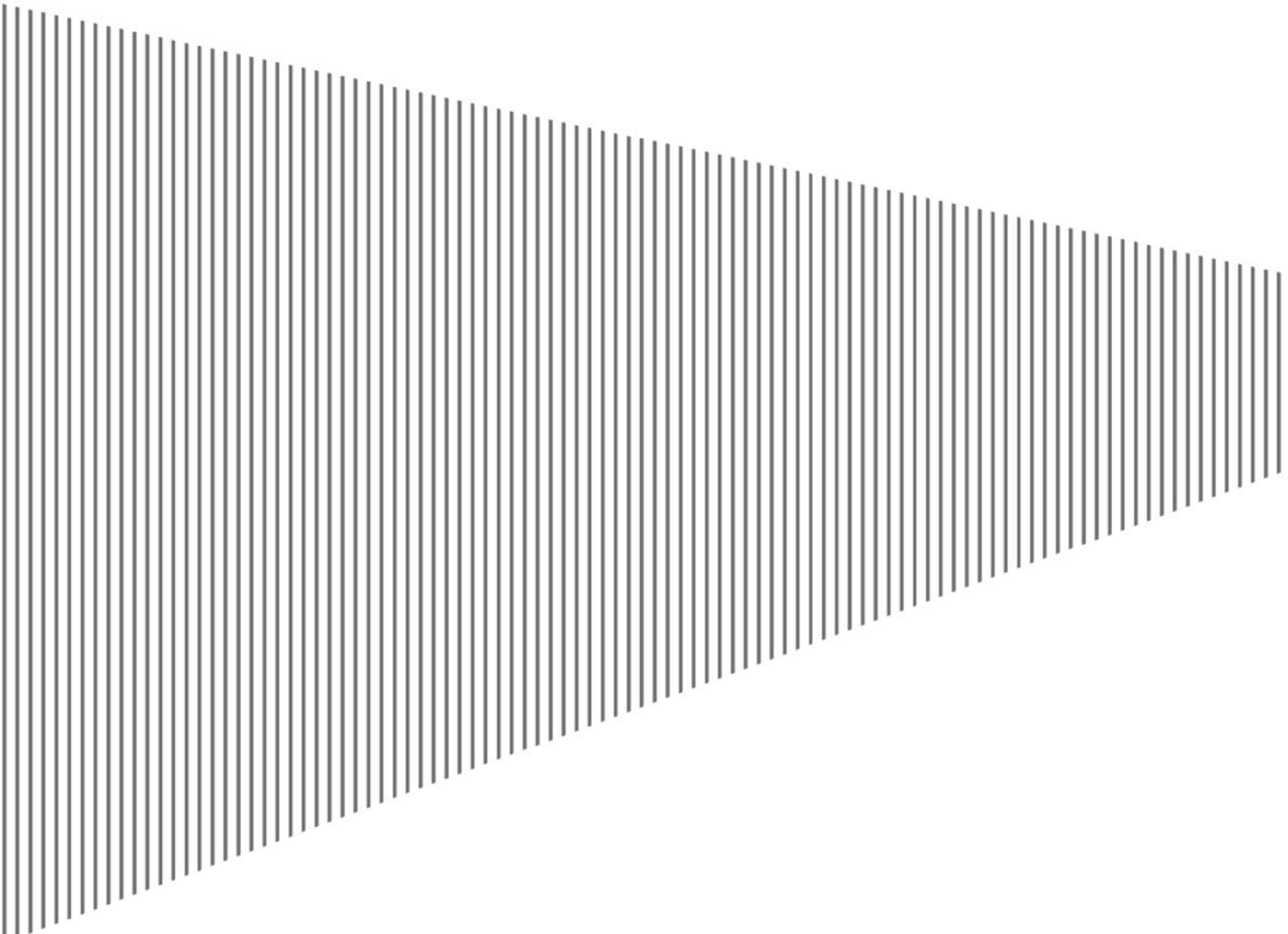
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Accounting Department

Summary Schedule of Prior Audit Findings

Finding 2015-001

Topic	Financial Statement Close Process
Amount of Questioned Cost	N/A
Contact Person Responsible for Corrective Action Plan	Controller
Status	Finding repeated. See finding 2016-001. <i>The University hired an employee to help the accounting office with the yearend closing and audit preparation. The person resigned before the end of the year causing no improvement or implementation of the process.</i>



Accounting Department

Corrective Action Plan

Finding 2016-001

Corrective Action Plan

Management will improve the annual closing process, implementing more effective monitoring controls over financial statements compilation in order to detect and correct errors on a 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 will improve the efficiency of the audit process at year-end.

The University will hire an Assurance Professional who will be responsible for ensuring that the annual closing process and financial statement preparation are accurate and conducted in a timely manner. S/he will also review new accounting standards to ensure the University's compliance and accuracy of the pertinent disclosures and schedules prior to presentation to the auditors.

The University recognizes that an effective control environment requires that those in charge of governance monitor the accounting and financial reporting functions effectively.

Contact person for corrective action: Vice President for Administration and Finance

Anticipated completion date: September 1, 2017

University of the Virgin Islands
Corrective Action Plan
For the Fiscal Year 2016 Single Audit

Finding Number: 2016-002

Management Response:

The University concurs.

Corrective Action Plan:

The University's Post Award Coordinator will review all grant awards to ensure the A B requirement percentage is correctly applied and retain the supporting documentation.

Contact person for corrective action: *Controller*
Anticipated completion date: *October 1, 2017*

Note: The University contacted the US Department of Education (DOE) regarding the sample cited and the DOE acknowledged the error and corrected the level of effort percentage for the Fiscal Year 2017 Grant Award Notification.

Finding Number: 2016-003

Management Response:

The University concurs.

Corrective Action Plan:

The University's Registrar will generate a report of enrolled and graduated students from the student module in the ERP (Banner) and upload the report to the National Student Clearinghouse which would then forward it for submission to the NSLDS database. The Registrar will also review the information in the NSLDS database to ensure the graduated student information is accurate after the December and May graduations.

Contact person for corrective action: *Vice Provost for Access and Enrollment*
Anticipated completion date: *July 1, 2017*