



AUDITED FINANCIAL STATEMENTS AND
SINGLE AUDIT OF FEDERAL FINANCIAL
ASSISTANCE PROGRAMS

University of the Virgin Islands
Year Ended September 30, 2010
With Report of Independent Auditors

University of the Virgin Islands

Audited Financial Statements

Year Ended September 30, 2010

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Report of Independent Auditors

Board of Trustees
University of the Virgin Islands

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, 2010, which collectively comprise the University’s basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the University’s management. 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. We were not engaged to perform an audit of the University’s internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audit provides reasonable basis for our opinions.

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, 2010, and the respective changes in financial position and cash flows, where applicable thereof, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2011, 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* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Government's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The schedule of expenditures of federal awards has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst + Young LLP

June 30, 2011

University of the Virgin Islands
Management's Discussion and Analysis
Year Ended September 30, 2010

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, 2010, with selected comparative information for the year ended September 30, 2009. 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 operations and position of two institutional cooperative organizations, The Foundation for the University of the Virgin Islands (the "Foundation") and The Reichhold Center Foundation (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. Although these organizations operate exclusively to provide the University with supplemental resources and support, the Reichhold Foundation is managed by its own board. The Foundation meets the criteria under GASB Statement No. 39 as a blended component unit, while the Reichhold Foundation meets the criteria of a discretely presented component unit. Financial statements and information relating to the component units of the University may be obtained from their respective 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.

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. It is a component unit of the Government and is presented as a discretely presented component unit in the basic financial statements of the Government.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Using the Financial Statements

The University's financial report includes three financial statements: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows. These financial statements are prepared in accordance with the Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements-and Management's Discussion and Analysis-for Public Colleges and Universities*. These statements are supported in the report by the notes to the financial statements. All sections must be considered together to obtain a complete understanding of the financial picture of the University.

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. The net assets are displayed in three parts, invested in capital assets net of related debt, restricted and unrestricted. Restricted net assets may either be expendable or nonexpendable and are those assets that are restricted by law or by an external donor. Unrestricted net assets, while they are generally designated for specific purposes, are available for use by the University to meet current expenses for any purpose. The statement of net assets, along with all of the University's basic financial statements, is 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.

The difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University.

	Fiscal Year 2010	Fiscal Year 2009	\$ Change
Current assets	\$ 24,807,709	\$ 26,170,883	\$ (1,363,174)
Noncurrent assets			
Capital assets, less accumulated depreciation	54,351,659	53,012,761	1,338,898
Other	48,357,708	44,781,095	3,576,613
Total assets	127,517,076	123,964,739	3,552,337
Current liabilities	14,405,853	14,711,174	(305,321)
Noncurrent liabilities	41,753,395	42,547,075	(793,680)
Total liabilities	56,159,248	57,258,249	(1,099,001)
Total net assets	\$ 71,357,828	\$ 66,706,490	\$ 4,651,338

University of the Virgin Islands
Management's Discussion and Analysis (continued)

Statement of Net Assets (continued)

Current assets consist primarily of cash, operating investments 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 \$24.8 million cover the current liabilities of \$14.4 million. The current ratio decreased to 1.7 in fiscal 2010 from 1.8 in fiscal year 2009. The reason for this decrease is due mainly to a decrease in cash and cash equivalents.

Non-current assets include restricted cash and cash equivalents, endowment investments at fair value and capital assets. This increase in capital assets is due to the increase in the investments at fair value as a result of the financial market rebounding and increase in capital assets.

One of the critical factors in maintaining 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 asset additions totaled \$4.0 million in fiscal year 2010 compared to \$2.8 million in fiscal year 2009. Capital asset additions primarily represent replacement and renovations of existing buildings, as well as significant investments in equipment. Depreciation expense was \$2.4 million for fiscal year 2010 and \$2.3 million in 2009. There was a \$1.3 million net increase in capital assets.

Current liabilities consist of accounts payable, deferred revenue and the current portion of the long-term debt. Current liabilities totaled \$14.4 million at September 30, 2010, as compared to \$14.7 million at September 30, 2009. There was a decrease of \$1 million in accounts payable and accrued liabilities and an increase in deferred revenue of \$0.7 million which gives an overall decrease of \$0.3 million.

Non-current liabilities consist of long-term debt and other obligations for which the principal due more than one year from the balance sheet date. Non-current liabilities decreased by \$0.8 million in fiscal year 2010. The reduction was due to payment on the bond and notes.

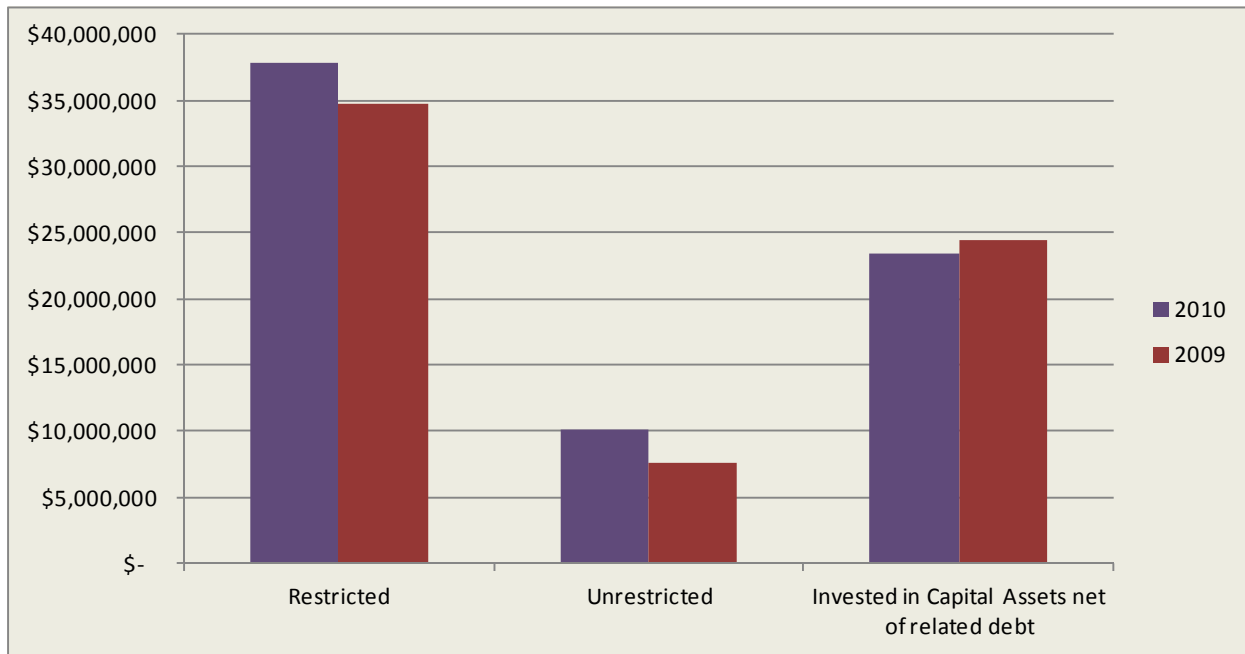
University of the Virgin Islands

Management's Discussion and Analysis (continued)

Net Assets

Net assets represent the difference between University assets and liabilities. Total net assets at September 30, 2010 and 2009 are \$71.3 million and \$66.7 million, respectively. The University's net assets at September 30, 2010 and 2009 are summarized as follows:

	Fiscal Year 2010	Fiscal Year 2009
Restricted	\$ 37,853,777	\$ 34,726,918
Unrestricted	10,036,467	7,523,079
Invested in capital assets, net of related debt	23,467,584	24,456,493
Total net assets	\$ 71,357,828	\$ 66,706,490



Restricted nonexpendable net assets represent the historical value (corpus) of gifts to the University's permanent endowment fund. These funds have specific restrictions on the expenditure of principal.

Restricted expendable net assets consist of income from endowment funds, gifts and pledges with specific restrictions, grants from third party agencies with expenditure restrictions and certain loan funds.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Net Assets (continued)

Although unrestricted net assets are not subject to externally imposed stipulations, most of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, as well as capital projects. This includes funds that have been designated by the governing board for specific purposes as well as amounts that have been contractually committed for goods and services which have not yet been received as of September 30, 2010. Also included are normal working capital balances maintained for departmental and auxiliary enterprise activities.

Invested in capital assets, net of related debt, represents the University's capital assets net of accumulated depreciation and outstanding principal balances of debt attributed to the acquisition, construction or improvement of those assets.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and the expenses incurred during the year. Activities are reported as either operating or non-operating. The financial reporting model classifies local government appropriations and gifts as non-operating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended September 30, 2010 and 2009 follows:

	Fiscal Year 2010	Fiscal Year 2009	\$ Change
Operating revenues			
Tuition and fees, net	\$ 12,456,375	\$ 12,141,098	\$ 315,277
Grants and contracts	28,805,443	15,820,365	12,985,078
Auxiliary enterprises, net	4,491,523	4,775,263	(283,740)
Other operating revenues	573,007	266,779	306,228
Total operating revenues	46,326,348	33,003,505	13,322,843
Operating expenses	82,227,888	70,621,290	11,606,598
Operating loss	(35,901,540)	(37,617,785)	1,716,245

(Continued)

University of the Virgin Islands
Management's Discussion and Analysis (continued)

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

	<u>Fiscal Year 2010</u>	<u>Fiscal Year 2009</u>	<u>\$ Change</u>
Balance brought forward	(35,901,540)	(37,617,785)	1,716,245
Nonoperating revenues (expenses)			
Local government appropriations	31,427,050	31,446,073	(19,023)
Federal Pell Grant Program	5,573,886	4,270,485	1,303,401
Other non-operating income (loss)	2,823,050	1,465,350	1,357,700
Interest on indebtedness	(2,463,313)	(2,498,306)	34,993
Net non-operating revenues	37,360,673	34,683,602	2,677,071
Gain (loss) before other revenues	1,459,133	(2,934,183)	4,393,316
Capital appropriations	3,192,205	3,192,205	-
Increase in net assets	4,651,338	258,022	4,393,316
Net assets			
Net assets at beginning of year	66,706,490	66,448,468	258,022
Net assets at end of year	\$ 71,357,828	\$ 66,706,490	\$ 4,651,338

One of the University's greatest financial strengths is the diverse streams of revenues that supplement its students' tuition and fees, including local government appropriations, federal and local sponsored programs, private gifts and grants and investment income. The University continues to aggressively seek funding from all possible sources consistent with its mission. It also prudently manages the financial resources from these efforts to fund its operating activities.

Tuition and local government appropriations are the primary source of funding for the University's academic programs. There is a direct relationship between the growth or reduction in local government support and the University's ability to restrain tuition and fee increases. The University strives to provide students with the opportunity to obtain a quality education at an affordable cost. The fiscal year 2010 increase in net tuition and fees of \$0.3 million is mainly due to tuition rates increase in the fall semester of 2010. Local government appropriations decreased by a minimal amount due to the reduction in the amount allocated to UVI from the Casino Fund, in fiscal year 2010 the casino revenue was \$0.12 million and in 2009 the revenue was \$0.14 million causing a decrease in the appropriations of \$0.02 million. The University continues to foster a strong relationship and partnership with the local government and recognizes the importance of its continued support.

University of the Virgin Islands
Management's Discussion and Analysis (continued)

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

Auxiliary enterprises include the bookstores, residence halls, campus housing, Sports and Fitness Center and the Reichhold Center. There was a decrease in revenues of \$0.3 million in this area which was made up of \$(0.4) million from Reichhold Center due to the decreased in the number of shows and an increase of \$0.1 million from the bookstores, residence hall and other room rentals.

The University's largest source of non-operating revenue is the Virgin Islands Government appropriations, also known as local government appropriations. Local government appropriations for the years ended September 30, 2010 and 2009 were \$31.42 million and \$31.44 million, respectively.

Other non-operating revenues consist of investment income and gifts which continue to increase due to the economic upturn.

Other revenues consist of capital appropriations received from the Government to meet outstanding capital debt obligations which remained constant with the previous year.

For fiscal year 2010, operating expenses totaling \$82.2 million include compensation and benefits of \$44.0 million, scholarships and fellowships of \$8.0 million, utilities of \$3.9 million, supplies and other expenditures of \$23.9 million, and depreciation expense of \$2.4 million.

A comparative summary of the University's operating expenses for the years ended September 30, 2010 and 2009 is as follows:

	Fiscal Year 2010	Fiscal Year 2009
Compensation and benefits	\$ 44,010,496	\$ 37,033,327
Supplies and other	23,895,086	21,071,101
Depreciation	2,406,715	2,287,584
Scholarships and fellowships	8,013,263	6,941,350
Utilities	3,902,328	3,287,928
Total operating expenses	\$ 82,227,888	\$ 70,621,290

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. There was an increase in compensation and benefits from 2010 to 2009 due mainly to the Census 2010 additional expenses.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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

Supplies and other expenses increased due to the increase in insurance, minor equipment, professional services and capital assets which were not capitalized.

A comparative summary of the University's total operating expenses by functional classification, including nonoperating, for the years ended September 30, 2010 and 2009 is as follows:

<u>Function</u>	<u>Fiscal Year 2010</u>	<u>Fiscal Year 2009</u>
Instruction	\$ 15,737,797	\$ 14,331,651
Research	17,541,423	7,115,296
Public service	6,574,956	6,521,987
Academic support	3,480,959	3,658,281
Student services	4,995,889	3,840,853
Institutional support	11,833,256	12,074,055
Operation and maintenance of plant	7,538,113	7,425,592
Student aid	7,499,436	6,166,386
Auxiliary enterprises	4,453,926	6,207,073
Depreciation	2,406,715	2,287,584
Other	165,418	992,532
Total expenses by function	<u>\$ 82,227,888</u>	<u>\$ 70,621,290</u>

Factors Impacting Future Periods

Fiscal year 2010 was the first full year of the University's new president, Dr. David Hall. Dr. Hall incorporated his seven Management Values into VISION 2012, the University's strategic plan. During this year the Vice President for Institutional Advancement was hired and plans are being made to start a capital campaign in fiscal year 2011.

The University remains committed to fulfilling the goals and objectives of VISION 2012 by using its resources wisely in support of promoting educational excellence, institutional improvement, financial sustainability, and community engagement. Some of the more significant achievements during the 2009/2010 period include:

- Established professional schools for nursing, business, and education.
- Changed name designation of academic divisions to schools and colleges, as appropriate.

University of the Virgin Islands
Management's Discussion and Analysis (continued)

- Enrolled 2,724 students during the fall 2009 semester.
- Commenced implementation of the recommendations of the Task Force on Improving Retention and Graduation Rates and the Task Force on Improving the Quality of Education.
- Established a male organization on each campus targeted to meeting the retention and recruitment needs of male students.
- Began operation of the Wellness Center on the St. Thomas campus.
- Aligned expanded use of ID cards to access campus services across both campuses.
- Established and implemented a renovation plan to address critical existing facilities issues on both campuses over the period 2010-2012.
- Conducted periodic measurements of faculty and staff satisfaction.
- Incorporated the Mediation Program into the human resource process for addressing workplace conflict.
- Implemented Prism and Banner Systems Interfaces.
- Fully implemented an Institutional Effectiveness strategy inclusive of student learning outcomes assessment and institutional assessment.
- Facilitated the further development of a formal Shared Governance system for the University.
- Hired an Internal Auditor.
- Increased the number of mission-centered, sponsored-program grant acquisitions by 30% over the same period in 2009.
- Increased the number, diversity, and dollar value of grants and contracts by 34% over the FY2006 benchmark year, exceeding the 10% annual growth target.
- Implemented the recommendation for distribution of Indirect Cost Funds to units and components.

University of the Virgin Islands
Management's Discussion and Analysis (continued)

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 of 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 Assets

September 30, 2010

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,572,269	\$ —
Investments with bond trustees at fair value	4,169,244	—
Accounts receivable, net of allowance of \$1,714,226	7,623,687	—
Inventories	856,752	—
Prepaid expenses and other current assets	585,757	—
Total current assets	24,807,709	—
Noncurrent assets:		
Restricted cash and cash equivalents	19,673,708	840,226
Investments at fair value	24,647,846	9,330,344
Capital assets, net	54,351,659	—
Other assets	4,036,154	—
Total noncurrent assets	102,709,367	10,170,570
Total assets	127,517,076	10,170,570
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	8,122,551	510,833
Deferred revenue	5,442,332	—
Current portion of long term debt	840,970	—
Total current liabilities	14,405,853	510,833
Noncurrent liabilities:		
Long-term debt	41,638,095	—
Other long-term liabilities	115,300	—
Total noncurrent liabilities	41,753,395	—
Total liabilities	56,159,248	510,833

(Continued)

University of the Virgin Islands

Statement of Net Assets (continued)

September 30, 2010

	<u>University</u>	<u>Component Unit</u>
Net assets		
Invested in capital assets, net of related debt	23,467,584	–
Restricted nonexpendable:		
Scholarships and fellowships	10,913,615	–
Restricted expendable	26,940,162	–
Unrestricted	10,036,467	9,659,737
Total net assets	<u>\$ 71,357,828</u>	<u>\$ 9,659,737</u>

See accompanying notes.

University of the Virgin Islands

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended September 30, 2010

	University	Component Unit
Revenues		
Operating revenues:		
Tuition and fees (net of scholarship allowance of \$205,363)	\$ 12,456,375	\$ —
Federal grants and contracts	25,523,650	—
State grant and contracts	3,281,793	—
Auxiliary enterprises	3,388,314	—
Reichhold Center	1,103,159	—
Other	573,057	—
Total operating revenues	46,326,348	—
Expenses		
Salaries:		
Faculty	9,684,063	—
Exempt staff	12,279,024	—
Nonexempt wages	12,893,886	—
Benefits	9,153,523	—
Scholarships	8,013,263	1,016,109
Utilities	3,902,328	—
Supplies and other services	22,713,820	65,655
Depreciation	2,406,715	—
Other expenses	1,181,266	—
Total operating expenses	82,227,888	1,081,764
Operating loss	(35,901,540)	(1,081,764)

(Continued)

University of the Virgin Islands

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

Year Ended September 30, 2010

	<u>University</u>	<u>Component Unit</u>
Nonoperating revenues (expenses):		
Local government appropriation	31,427,050	–
Federal Pell Grant Program	5,573,886	–
Gifts	336,918	–
Net investment income (loss)	2,486,132	2,994,560
Interest on indebtedness	(2,463,313)	–
Net nonoperating revenues (expenses)	<u>37,360,673</u>	<u>2,994,560</u>
Increase in net assets before capital appropriations	1,459,133	1,912,796
Capital appropriations	<u>3,192,205</u>	–
Increase in net assets	4,651,338	1,912,796
Net assets beginning of year	66,706,490	7,746,941
Net assets end of the year	<u>\$ 71,357,828</u>	<u>\$ 9,659,737</u>

See accompanying notes.

University of the Virgin Islands

Statement of Cash Flows

Year Ended September 30, 2010

	University
Cash flows from operating activities	
Tuition and fees	\$ 12,695,167
Grants and contracts	28,599,554
Auxiliary enterprises	3,338,529
Sales and services educational departments	2,340,107
Payments to suppliers and vendors	(24,751,699)
Payments to employees	(35,099,233)
Payments for utilities	(3,902,328)
Payments for benefits	(9,108,504)
Payments for scholarships and fellowships	(8,013,263)
Net cash provided by operating activities	(33,901,670)
Cash flows from investing activities	
Local government appropriations	31,427,050
Pell grant	5,573,886
Endowment gifts	16,017
Proceeds from sales and maturities of investments	2,486,132
Purchases of investments	(4,019,719)
Gifts and contracts for other capital purposes	320,901
Net cash (used) provided by investing activities	35,804,267
Cash flows from capital and related financing activities	
Capital appropriations	3,192,205
Net purchases of capital assets	(3,980,409)
Principal paid on capital debt	(799,920)
Interest paid on capital debt	(2,463,313)
Deposit with trustee	25,200
Net cash used in capital and related financing activities	(4,026,237)
Net increase (decrease) in cash and cash equivalents	(2,123,640)
Cash and cash equivalents at beginning of year	33,369,617
Cash and cash equivalents at end of year	\$ 31,245,977
Cash and cash equivalents include	
Unrestricted and restricted cash and cash equivalents	\$ 11,572,269
Cash and cash equivalents restricted in sinking funds	19,673,708
	\$ 31,245,977

(Continued)

University of the Virgin Islands

Statement of Cash Flows (continued)

Year Ended September 30, 2010

	<u>University</u>
Reconciliation of net operating loss to net cash used in operating activities	
Operating loss	\$ (35,901,540)
Adjustments to reconcile net operationing loss to net cash used in operating activities:	
Depreciation	2,406,715
Loss on disposal of capital assets	234,796
Amortization of bond issue costs	22,089
Bad debt expense	1,091,009
Changes in assets and liabilities, net:	
Grants and contracts receivables	(1,495,742)
Inventories	40,215
Prepaid expenses, inventories and other	92,683
Other assets	(45,525)
Accounts payable and accrued liabilities	(1,054,853)
Deferred revenue	708,483
Net cash used in operating activities	<u>\$ (33,901,670)</u>

See accompanying notes.

University of the Virgin Islands

Notes to Financial Statements

September 30, 2010

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 component unit of the Government and is presented as a discretely presented component unit public university fund 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.

As required by Governmental Accounting Standards Board (“GASB”) No. 39, the University’s basic financial statements include the financial statements of both the University and its component units: The Foundation for the University of the Virgin Islands and The Reichhold Foundation. Application of the criteria contained in GASB No. 39 determines potential component units for which the primary government is financially accountable and other organizations for which the significance of their relationship with the primary government are such that exclusion would cause the primary government’s financial statements to be misleading or incomplete.

Component Units

Blended Component Unit: a blended component is an entity whose governing body is substantively the same as the University’s governing body, the component unit provides services entirely or almost entirely to the University itself, or when the services provided benefit the University exclusively or almost exclusively. The following is treated as a blended component unit:

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Component Units (continued)

Foundation for the University of the Virgin Islands

The Foundation for the University of the Virgin Islands (the “Foundation”) is a not-for-profit corporation organized for charitable and educational purposes. The Foundation operates for the sole purpose of assisting and supporting the University of the Virgin Islands in accomplishing its charitable and educational mission. Complete financial statements of the Foundation for the University of the Virgin Islands can be obtained directly by contacting the Foundation’s administrative offices.

Discrete Component Unit: a discretely presented component unit is an entity whose governing body is not the same as the University’s governing body. The component unit provides services entirely or almost entirely to the University itself, or when the services provided benefit the University exclusively or almost exclusively. GASB Statement No. 39 states further that if it would be misleading to exclude the potential component unit because of its relationship with the University, then that component unit should be discretely presented.

Reichhold Foundation

The Foundation for the Reichhold Center for the Arts (“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 University does not control timing, purpose or amount of receipts from the Reichhold Foundation. The resources (and income thereon) which the Reichhold Foundation holds and invests are restricted to the activities of the University. Because these 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. Complete financial statements of the Foundation for the Reichhold Center for the Arts can be obtained directly by contacting the Foundation’s administrative offices.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

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

Measurement Focus and Basis of Accounting

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. 34. 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.

The University has the option to apply all Financial Accounting Standards Board ("FASB") pronouncements issued after November 30, 1989, unless FASB pronouncements conflict with GASB pronouncements. The University has elected to not apply FASB pronouncements issued after the applicable date.

Blended Component Unit

The University of the Virgin Islands Foundation conforms to the requirements of Statements of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*, on its stand-alone financial statements. SFAS No. 117 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 Foundation is incorporated in the financial statements of the University, it conforms to the requirements of Governmental Accounting Standards.

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

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

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 stated at fair value in the accompanying statement of net assets.

Accounts Receivable

Interest on student loans is recognized as collected due to the immateriality of the amounts involved. An allowance for loans whose collection is doubtful is computed based upon historical experience for loans that are not guaranteed by the U.S. Government.

Inventories

Inventories are valued at the lower of first-in, first-out cost or market and consist primarily of books.

Deferred Debt Issuance Costs

Costs related to the issuance of bonds are deferred. Those costs are being amortized over the term of the bonds using the bonds outstanding method, which approximates the effective interest rate method.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

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. 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, and 7 to 30 years for land improvements. Renovations to buildings and other 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.

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

Deferred Revenues

Deferred 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, 2010, \$3,845,566 of tuition and fees that relate to the remainder of the fall semester and \$1,596,769 of the Census 2010 Contract are deferred.

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

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

Classification of Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted, nonexpendable net assets consist of endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Restricted, expendable net assets include resources that the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets represent 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 assets 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 assets are designated for academic and research programs and initiatives, and capital programs.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University addresses each situation on a case-by-case basis prior to determining the resources to be used to satisfy the obligation.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Classification of Revenues

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

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, net of scholarship allowances; some Federal, state and local grants and contracts, net of allowances for contractual adjustments and doubtful accounts.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, Federal Pell grants and other revenue sources that are defined as non-operating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as state appropriations, investment income and gifts. Gifts to the endowment fund are classified as other non-operating revenues.

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. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, and are not recorded as assets until the related gift has been received.

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 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 expenses are made. For other grants the revenue is recognized as it is received.

University of the Virgin Islands

Notes to Financial Statements (continued)

2. 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, 2010, 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, 2010, the carrying value of cash and cash equivalents amounted to \$31,245,977 and cash deposited in banks amounted to \$32,496,020.

3. Accounts Receivable

Accounts receivable as of September 30, 2010 are as follows:

U.S. Virgin Islands Government	\$ 1,276,221
U.S. Federal Government	2,842,432
Students	2,235,014
Other	2,984,246
	<hr/>
	9,337,913
Less allowance for doubtful accounts	(1,714,226)
Accounts receivable, net	<hr/> <u>\$ 7,623,687</u>

4. 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 of Administration and Finance. Currently, the University investment policy does not address risks associated with investments. The Board of Trustees for each of the Foundations is responsible for their specific investment policy.

University of the Virgin Islands

Notes to Financial Statements (continued)

4. Investments (continued)

The University's investments consist of monies from the following sources: Land grant Endowment fund, Quasi-endowment fund, Gifts of Stocks and Mutual funds and Debt Service Reserve fund. The Land Grant Endowment fund and the Quasi-endowment fund are invested in U.S. Government Securities or securities backed by the U.S. Government or its agencies and instrumentalities. There is a small portfolio of stocks and mutual funds in the possession of the University which came about as a result of gifts: these include IBM Stock and Putnam mutual funds. The final source of funds invested is the Debt Service Reserves. These are funds held by the Bond Trustee in keeping with the various bond indentures of the University. These funds are invested by the Bond Trustee in U.S. Government Securities or securities backed by the U.S. Government or its agencies and instrumentalities.

Investments as of September 30, 2010 consist of the following:

	<u>Fair Value</u>
Current:	
Mutual funds	<u>\$ 4,169,244</u>
Noncurrent:	
U.S. Treasury bills and notes	\$ 1,310,587
Certificates of Deposit	2,588,311
Corporate bonds	1,459,553
Equities	2,003,298
Mutual funds	16,417,738
Other	868,359
	<u>\$24,647,846</u>

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.

University of the Virgin Islands

Notes to Financial Statements (continued)

4. Investments (continued)

Custodial Credit Risk-Deposits

Custodial credit risk is the risk that in the event of a bank failure, the University's deposits may not be honored and returned. As of September 30, 2010, the University's deposits were covered by federal depository insurance, corporate surety bonds or by collateral held by the Government and thus had no deposits that were exposed to custodial credit risk.

Interest-Rate Risk

Interest-rate risk is the risk that the value of fixed income securities will decline because of rising interest rates. The prices of fixed income securities with longer maturity time, measured by duration, tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. The University does have some exposure in relationship to interest rate increases. Below is a table showing fixed income investments maturity dates in years:

Years until Maturity	<1	1-2	2-5	5-10	10-15	15-20	20+	Total
US Treasury Bills and Notes	\$ -	\$ -	\$ 626,929	\$ -	\$ 486,165	\$ -	\$ 197,493	\$1,310,587
CD's	1,341,232	655,212	591,867	-	-	-	-	2,588,311
Corporate Bonds	-	27,169	27,416	102,223	67,763	45,136	1,189,846	1,459,553
Total	\$ 1,341,232	\$ 682,381	\$1,246,212	\$ 102,223	\$ 553,928	\$ 45,136	\$1,387,339	\$5,358,451

Credit Risk

Fixed income securities are subject to credit risk, which is the chance that a bond issuer will fail to pay interest of principal in a timely manner, or that negative perceptions of the issuers ability to make these payments will cause security prices to decline. The Corporate Bonds circumstance may arise due to a variety of factors such as financial weakness, bankruptcy, litigation and/or adverse political developments. Certain fixed income securities, including obligations of the U.S. Government or those explicitly guaranteed by the U.S. Government, are not considered to have credit risk. The University's fixed income securities are all in U.S. Government Bonds and Corporate Bonds.

University of the Virgin Islands

Notes to Financial Statements (continued)

4. Investments (continued)

Credit Risk (continued)

Issuer credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Investments issued or explicitly guaranteed by the United States government are excluded. The University's policy requires and limits investments in debt securities to only those in the top investment grade ratings issued by a nationally recognized statistical rating organization. As of September 30, 2010, the University's credit quality distribution for securities was as follows:

	Carrying Value	Standard & Poor's Ratings
Corporate bonds	\$1,459,553	A – AAA

Concentration of Credit Risk

Concentration of credit risk is the risk associated with a lack of diversification of having too much invested in a few individual issuers, thereby exposing the University to greater risks from adverse economic, political, regulatory, geographic, or credit developments. The University's investments consist of Corporate Bonds and investment issued or explicitly guaranteed by the U.S. Government and investments in mutual funds and, therefore, are excluded from concentration of credit risk.

5. 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)

6. Capital Assets

Changes in capital assets for the year ended September 30, 2010 are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 5,438,112	\$ —	\$ —	\$ 5,438,112
Other capital assets:				
Land improvements	2,082,428	—	—	2,082,428
Buildings, fixed equipment, improvements and infrastructure	69,300,912	2,623,793	372,710	71,551,995
Equipment and library materials	19,795,601	1,356,616	563,358	20,588,859
Total other capital assets	91,178,941	3,980,409	936,068	94,223,282
Less accumulated depreciation:				
Land improvements	(1,771,717)	(38565)	—	(1,810,282)
Buildings, fixed equipment, improvements and infrastructure	(26,161,476)	(1,484,694)	10,856	(27,635,314)
Equipment and library materials	(15,671,099)	(883,456)	690,416	(15,864,139)
Total depreciation	(43,604,292)	(2,406,715)	701,272	(45,309,735)
Other capital assets, net	47,574,649	1,573,694	234,796	48,913,547
Capital assets, net	\$ 53,012,761	\$ 1,573,694	\$ 234,796	\$ 54,351,659

7. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended September 30, 2010 are as follows:

	Beginning Balance	Additions	Reductions	Amortization of discount	Ending Balance	Less Amounts Due Within One Year	Non- Current Liabilities
Notes payable	\$ 1,843,104	\$ —	\$ 109,920	\$ —	\$ 1,733,184	\$ 115,970	\$ 1,617,214
Bonds payable	41,413,792	—	690,000	22,089	40,745,881	725,000	40,020,881
Other long-term Liabilities	90,100	25,200	—	—	115,300	—	115,300
Total	\$ 43,346,996	\$ 25,200	\$ 799,920	\$ 22,089	\$ 42,594,365	\$ 840,970	\$ 41,753,395

Bonds and notes payable are further disclosed below in Notes 8 and 10.

University of the Virgin Islands

Notes to Financial Statements (continued)

8. Notes Payable

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 is \$450,000 payable in 120 equal monthly installments of \$4,828 including interest at 5.25% per annum. As of September 30, 2010, the amount outstanding was \$311,595.

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, 2010, the amount outstanding was \$1,421,588. The note is payable, along with the related interest, in semi-annual installments of \$75,284, 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. Total notes payable outstanding as of September 30, 2010, amounted to \$1,733,183.

Future principal and interest payments on notes payables follow:

	Principal	Interest	Total
Fiscal year ending September 30, 2010:			
2011	\$ 115,970	\$ 92,536	\$ 208,506
2012	122,352	86,154	208,506
2013	129,085	79,421	208,506
2014	136,189	72,316	208,505
2015	143,684	62,822	206,506
2016-2020	612,407	217,683	830,090
2021-2025	473,496	53,497	526,993
	<u>\$1,733,183</u>	<u>\$ 664,429</u>	<u>\$2,397,612</u>

University of the Virgin Islands

Notes to Financial Statements (continued)

9. 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, 2010, the University had accrued \$4,756,173 for vacation. The amount is included in accounts payable and accrued liabilities in the accompanying statement of net assets.

10. Bonds Payable

In fiscal year 2004, the University of the Virgin Islands General Obligation Improvement Bonds, 2004 Series A (the “2004 Series A Bonds”) were issued under and secured by the Indenture of Trust dated as of December 1, 1999 and a First Supplemental Indenture of Trust dated as of July 1, 2004, between the University and the Trustees. These Bonds will be used to implement Phase II of the Capital Development Program as outline in the University’s Master Plan, which addresses additional costs of construction, furnishings and equipping of various facilities of the University, to fund the debt service reserve fund and to pay cost of issuance.

During fiscal year 2000, the University issued its refunding and Improvement Bonds, 1999 Series A Bonds. The University issued these Bonds to finance a portion of the cost of the construction, furnishing and equipping of various facilities of the University, to refund 1994 Series A bonds, to fund a debt service reserve fund for the 1999 Series A Bonds, and to pay certain costs of issuance. The 1999 Series A Bonds were issued under and secured by an indenture of trust dated as of December 1, 1999, between the University and the Trustee. The University anticipates refunding the 1999 series A Bond for 2010 Series A Bonds.

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

10. Bonds Payable (continued)

As of September 30, 2010 bonds payable consisted of the following:

Description	Final Maturity	2010
General Obligation Bonds of 1999, 4.75% to 5.95%	2029	\$ 20,960,000
General Obligation Bonds of 2004, 2.02% to 5.38%	2034	20,245,000
		<u>41,205,000</u>
Less unamortized discount		459,119
		<u>\$ 40,745,881</u>

The University issued the 1994 Series A Bonds to refinance the construction of the St. Croix and St. Thomas residence halls and ancillary facilities. These bonds were refunded and defeased during fiscal year 2000.

Future principal and interest payments on bonds payable follow:

	Principal	Interest	Total
Fiscal year ending September 30,			
2011	\$ 725,000	\$ 2,312,010	\$ 3,037,010
2012	765,000	2,274,353	3,039,353
2013	805,000	2,233,649	3,038,649
2014	850,000	2,189,691	3,039,691
2015	895,000	2,142,243	3,037,243
2016-2020	5,330,000	9,869,719	15,199,719
2021-2025	7,335,000	8,087,775	15,422,775
2026-2030	10,510,000	5,430,982	15,940,982
2031-2034	13,990,000	1,877,084	15,867,084
Total	<u>\$41,205,000</u>	<u>\$36,417,506</u>	<u>\$77,622,506</u>

University of the Virgin Islands

Notes to Financial Statements (continued)

11. 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.

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. As of September 30, 2010, 249 faculty members and other employees were TIAA-CREF participants.

Virgin Islands Government Employees' Retirement System (GERS)

The GERS plan is a contributory, multiple-employer, cost-sharing defined benefit pension plan. Information as to the portion of GERS specifically related to the University was not prepared as part of the actuarial valuation and participants in the plan that have retired or have been terminated are not tracked by originating employer. The Government, not the University, is responsible for GERS unfunded prior service costs, if any. The number of active participants from the University participating in GERS as of September 30, 2010 are 249 (total GERS participants from all employers approximate 15,000).

Total pension expenditures for the year ended September 30, 2010 are summarized below:

TIAA-CREF	\$2,243,801
GERS	<u>1,467,230</u>
	<u>\$3,711,031</u>

University of the Virgin Islands

Notes to Financial Statements (continued)

12. Functional Information

The University's operating expenses by functional classification as of September 30, 2010 were as follows:

Functional Classification	Salaries and Benefits	Supplies and Other Services	Scholarships and Other Services	Utilities	Depreciation	Other Expenditures	Total
Instruction	\$12,757,401	\$ 2,429,158	\$ 400,731	\$ 27,493	\$ –	\$ 123,014	\$15,737,797
Research	10,026,839	6,859,763	228,549	220,790	–	205,482	17,541,423
Public service	4,081,340	2,160,351	176,386	33,084	–	123,795	6,574,956
Academic support	2,442,199	829,015	2,500	2,271	–	204,974	3,480,959
Student services	2,306,351	2,265,081	–	421,890	–	2,567	4,995,889
Institutional support	7,298,414	4,196,861	8,105	–	–	329,826	11,833,206
Operation and maintenance of plant	3,901,564	896,144	–	2,740,405	–	–	7,538,113
Student aid	159,678	263,067	7,074,720	–	–	1,971	7,499,436
Auxiliary enterprises	1,036,710	2,814,380	81,423	456,395	–	65,018	4,453,926
Depreciation	–	–	–	–	2,406,715	–	2,406,715
Other	–	–	40,849	–	–	124,619	165,468
	<u>\$44,010,496</u>	<u>\$22,713,820</u>	<u>\$8,013,263</u>	<u>\$3,902,328</u>	<u>\$2,406,715</u>	<u>\$1,181,266</u>	<u>\$82,227,888</u>

13. Significant New Accounting Pronouncements

In June 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. Intangible assets, and more specifically easements, are referred to in the description of capital assets in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes. An absence of sufficiently specific authoritative guidance that addresses these questions has resulted in inconsistencies in the accounting and financial reporting of intangible assets among state and local governments, particularly in the areas of recognition, initial measurement, and amortization. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments.

University of the Virgin Islands

Notes to Financial Statements (continued)

13. Significant New Accounting Pronouncements (continued)

This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets.

This statement is effective for periods beginning after June 15, 2010. Early application of this Statement is encouraged. The University does not have intangible assets.

In November 2007, the GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. Accounting standards previously required permanent and term endowments, including permanent funds, to report land and other real estate held as investments at their historical cost. Endowments exist to invest resources for the purpose of generating income. Other entities that exist for similar purposes—pension and other post employment benefit plans, external investment pools, and Internal Revenue Code Section 457 deferred compensation plans—however, report land and other real estate held as investments at their fair value.

This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement is effective for periods beginning after June 15, 2008. Earlier application is encouraged. The University does not have land or other real estate held as investments by endowments.

University of the Virgin Islands

Notes to Financial Statements (continued)

13. Significant New Accounting Pronouncement (continued)

In November, 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and post closure care and nuclear power plant decommissioning. The University adopted the provisions of GASB Statement No. 49 during the year ended September 30, 2010. The adoption of GASB Statement No. 49 had no material impact on the University.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. This statement is effective for periods beginning after June 15, 2009. Earlier application is encouraged. The University does not have any derivative instruments.

Future Adoption of Accounting Pronouncements

Management is evaluating the impact that these statements will have on the University's financial statements.

The GASB has issued the following accounting standards that have effective dates after September 30, 2010:

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus- an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basis Financial Statements and Management's Discussion and Analysis for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues

University of the Virgin Islands

Notes to Financial Statements (continued)

13. Significant New Accounting Pronouncement (continued)

Future Adoption of Accounting Pronouncements (continued)

have arisen since the issuance of those Statements. This statement is effective for periods beginning after June 15, 2012.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. (i) Financial Accounting Standard Board (FASB) Statements and Interpretations; (ii) Accounting Principles Board Opinions; and (iii) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. This statement is effective for periods beginning after December 15, 2011.

Supplementary Reports and Schedules

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

Board of Trustees
University of the Virgin Islands

We have audited 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, 2010, and have issued our report thereon dated June 30, 2010. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University’s internal control over financial reporting.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses. Finding 10-01.

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 for non compliance or other matters that are required to be reported under Government Auditing Standards.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the University's response and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the University's Board of Trustees, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

June 30, 2011

Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Board of Trustees
University of the Virgin Islands

Compliance

We have audited the University of the Virgin Islands' (the University) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the University's major federal programs for the year ended September 30, 2010. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University's compliance with those requirements.

In our opinion, the University complied, in all material respects, with the 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, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 10-02 through 10-04.

Internal Control Over Compliance

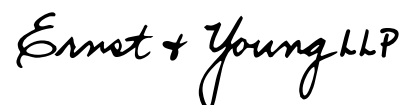
The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered University's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of University's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness 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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 10-02 through 10-04. 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 yet important enough to merit attention by those charged with governance.

The University's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit University's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



June 30, 2011

University of the Virgin Islands
Schedule of Expenditures of Federal Awards

Year Ended September 30, 2010

Federal Grantor/Program Title	CFDA	Direct Award	Research & Development Cluster	Student Financial Assistance	Non-Cluster Programs	Total Federal Expenditures
U.S. Department of Agriculture						
Payments to Agricultural Experimental Station under the HATCH Act	10.203	Yes	\$ 987,096	\$ -	\$ -	\$ 987,096
Sustainable Agricultural Research & Education ¹	10.215	No	11,932	-	-	11,932
Integrated Programs ²	10.303	No	90,575	-	-	90,575
Grants for Agricultural Research, Special Research Grants ³	10.200	No	54,311	-	-	54,311
Cooperative Extension Service	10.500	Yes	1,227,689	-	-	1,227,689
Forest Stewardship Program	10.678	Yes	85	-	-	85
U.S. Department of Commerce						
Census Bureau Data Products	11.001	Yes	9,490,109	-	-	9,490,109
Sea Grant Support NOAA ⁴	11.417	No	77,388	-	-	77,388
Financial Assistance for National Ctrs for Coastal Ocean Science	11.426	Yes	72,737	-	-	72,737
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	Yes	95,904	-	-	95,904
Coastal Services Center ⁴	11.473	No	39,267	-	-	39,267
Cooperative Fisheries Statistics	11.434	Yes	17,873	-	-	17,873
Habitat Conservation	11.463	Yes	25,726	-	-	25,726
Habitat Conservation ⁹	11.463	No	16,676	-	-	16,676
U.S. Department of Housing & Urban Development						
Historically Black Colleges and Universities Program	14.520	Yes	-	-	117,601	117,601
U.S. Department of the Interior						
Economic, Social, and Political Development of the Territories	15.875	Yes	-	-	995,414	995,414
Assistant to State Water Resource Research	15.805	Yes	114,525	-	-	114,525
Geological Survey Research & Data Collection	15.808	Yes	95,520	-	-	95,520
Geological Survey Research & Data Collection ⁵	15.808	No	120	-	-	120
U.S. Department of Labor						
Consultation Agreements	17.504	Yes	-	-	241,994	241,994
Job Training Partnership Act ⁶	17.250	No	-	-	1,660	1,660
Institute of Museum & Library Services						
Laura Bush 21stCentury Librarian Program	45.313	Yes	-	-	4,890	4,890

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Program Title	CFDA	Direct Award	Research & Development Cluster	Student Financial Assistance	Non-Cluster Programs	Total Federal Expenditures	
National Science Foundation							
Biological Sciences	47.074	Yes	1,644	-	-	1,644	
Geosciences	47.050	Yes	20,482	-	-	20,482	
Education & Human Resources	47.076	Yes	2,577,445	-	-	2,577,445	
Education & Human Resources ³	47.076	No	18,801	-	-	18,801	
Small Business Administration							
Small Business Development Center	59.037	Yes	-	-	471,122	471,122	
U.S. Environmental Protection Agency							
Science to Achieve Results Research Program ¹⁰	66.509	No	20,778	-	-	20,778	
U.S. Department of Health and Human Services							
AIDS Education & Training Centers ⁷	93.145	No	85,653	-	-	85,653	
Environmental Public Health & Emergency Response ³	93.070	No	20,133	-	-	20,133	
Minority Health & Health Disparities Research	93.307	Yes	1,389,317	-	-	1,389,317	
ARRA-Scholarships for Disadvantaged Students	93.407	Yes	-	-	11,737	11,737	
Head Start	93.600	Yes	-	-	213,768	213,768	
University Ctrs for Excellence Developmental Disabilities (UAP)	93.632	Yes	-	-	547,126	547,126	
TRANS-NIH Recovery Act Research Support	93.701	Yes	233,119	-	-	233,119	
Biomedical Research and Research Training	93.859	Yes	734,363	-	-	734,363	
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	Yes	-	23,908	-	23,908	
U.S. Department of Education							
Federal Supplemental Education Opportunity Grants	84.007	Yes	-	84,415	-	84,415	
Special Education Grants to States ⁸	84.027	No	-	-	1,401	1,401	
Special Education Grants to States ⁸	84.027A	No	-	-	507	507	
Federal Work Study Program	84.033	Yes	-	94,726	-	94,726	
TRIO- Upward Bound	84.047A	Yes	-	-	473,738	473,738	
Federal Pell Grant Program	84.063	Yes	-	5,573,886	-	5,573,886	
Assistive Technology	84.224	Yes	-	-	111,882	111,882	
Assistive Technology	84.224C	Yes	-	-	608	608	
Higher Education Institutional Aid	84.031B	Yes	-	-	1,843,854	1,843,854	
Academic Competitiveness Grants	84.375	Yes	-	148,849	-	148,849	
College Access Challenge Grant	84.378	Yes	-	-	325,911	325,911	
Direct Student Loan -Title IV	84.268	Yes	-	2,850,808	-	2,850,808	
National Writing Project ¹¹	84.928A	No	-	-	37,728	37,728	
				\$ 17,519,267	\$ 8,776,592	\$ 5,400,942	\$ 31,696,801

See accompanying notes

1- Passthrough from University of Georgia

2- Passthrough from University of Florida/Reutgers

3- Passthrough from University of Florida

4-Passthrough from University of Puerto Rico

5- Passthrough from University of Central Florida

6- Passthrough from Virgin Islands Department of Labor

7-Passthrough from University of South Florida

8-Passthrough from Virgin Islands Department of Education

9- Passthrough from Virgin Islands Resource Conservancy and Development

10-Passthrough from University of Oregon

11-Passthrough from the National Writing Project Organization

University of the Virgin Islands

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended September 30, 2010

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes all Federal grants to the University which had activity during the year ended September 30, 2010. This schedule has been prepared on the accrual basis of accounting. Grant revenues are recorded for financial reporting purposes when the University has met the eligibility requirements for the respective grants.

2. Program Clusters

OMB Circular A-133 defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. According to this definition, Research and Development programs and Student Financial Assistance programs were deemed to be clusters of programs.

3. Federal Student Loan Program

The Federal Perkins Loan and Nursing Student Loan (NSL) are administered directly by the University and balances and transactions related to these programs are included in the University's basic financial statements.

University of the Virgin Islands
 Schedule of Findings and Questioned Costs
 For the Year Ended September 30, 2010

Part I—Summary of Auditor’s Results

Financial Statements Section

Type of auditor’s report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards Section

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies)? X Yes None reported

Type of auditor’s report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133? X Yes No

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
Various	Student Financial Assistance Cluster
Various	Research & Development Cluster
15.875	Economic, Social, and Political Development of the Territories
59.037	Small Business Development Centers

University of the Virgin Islands
Schedule of Findings and Questioned Costs (continued)

Part I—Summary of Auditor’s Results

Dollar threshold used to distinguish between Type A and Type B programs:	\$950,904
	<hr/>
Auditee qualified as low-risk auditee?	<u> </u> Yes <u> X </u> No

University of the Virgin Islands

Schedule of Findings and Questioned Costs

Year Ended September 30, 2010

Part II— Findings Related to the Financial Statements Which Are Required to be Reported in Accordance with Government Auditing Standards

Finding Number: 10-01

Financial Statement Close Process

The University's lack of control over the financial statement close process led to a significant adjustment in the financial statements.

Category

Internal Controls

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 us 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:

During our audit, we noted deficiencies in the University's financial statement close process related to Accounts Receivable and the Allowance for Doubtful Accounts.

Context:

As a result of our audit procedures we were able to identify the amount of \$931,969 as Accounts Receivable that should be reserved. These amounts had not been previously identified by the University and were not included as part of the total Allowance for Doubtful Accounts.

Effect:

The lack of supervisory review led to significant adjustments in the University's financial statements.

Cause:

Lack of controls over the recording of the allowance for doubtful accounts led the University to incorrectly calculate the amount that should be reserved.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2010

Part II— Findings Related to the Financial Statements
Which Are Required to be Reported in Accordance with
Government Auditing Standards

Recommendation:

The University's management should be more closely involved in the monitoring and review of the financial statement close process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the University's knowledge over its financial condition.

Views of responsible officials and planned corrective action:

The University accepts the finding and will record the bad debt expense annually.

*Contact persons responsible for corrective
action:*

Controller

Anticipated completion date:

September 30, 2011

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2010

Part III—Federal Awards Findings and Questioned Costs Section

Finding Number: 10-02

Federal program:

U.S. Department of Education / Student Financial Assistance Cluster [Pell Grant Program (84.063)]

Category

Internal Controls/Compliance

Compliance Requirement

Special Test and Provisions – Return of Title IV Funds

Criteria or specific requirement:

In accordance with 34 CFR 668.22 (j)- An institution must return the amount of Title IV funds for which it is responsible as soon as possible but no later than 45 days after the date of the Institution's determination that the student withdrew.

Condition:

In testing compliance with the return of Title IV Funds, we noted one (1) case (student # 900067033) out of thirteen (13) cases in which the Institution did not return the calculated amount of funds to be returned to the respective Title IV program within the required 45 days period.

Questioned costs:

No questioned costs were identified.

Context:

We selected thirteen (13) cases of students from the total population of sixty-six (66) students who withdrew from their courses during the fiscal year 2009-2010.

Effect:

Failure to refund the Title IV funds on time deprives federal funds to students in financial need.

Cause:

Internal controls to ensure timely identification and return Title IV funds were not operating effectively.

Recommendation:

The University should improve the procedures to ascertain that refunds of Title IV funds are made in a timely manner within required timeframes.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Program Findings

Views of responsible officials and planned corrective action:

The University concurs with the finding and has established a procedure to disburse withdrawal slips to the accounting department for review.

In order to mitigate the circumstances and not to repeat this finding the Financial Aid Office and the Registrar's Office have established the following procedure:

- 1) The Registrar's Office will submit a report every two weeks to the following offices:
 - a) two within the Financial Aid Office
 - b) one to the Registrar and
 - c) one to the Office of the Controller.

The Financial Aid Office will then calculate the refund based on the information that is in the withdrawal report within one week of receipt of the information.

The Controller's Office will review the student account based on the withdrawal report once a month to determine if the calculations were completed.

Contact persons responsible for corrective action:

Vice-provost for Access and Enrollment

Anticipated completion date:

June 30, 2011

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Program Findings

Finding Number: 10-03

Program:

U.S. Department of Education / Student Financial Assistance Cluster [Pell Grant Program (84.063)]

Category

Internal Controls/Compliance

Compliance Requirement

Special Test and Provisions - Disbursements To or On Behalf of Students

Criteria or specific requirement:

According to CFR Title 34 Section 668.164; Whenever an institution disburses Title IV HEA program funds, by crediting a student's account and the total amount of all Title IV funds credited exceeds the amount of tuition and fees, room and board, and other authorized charges the institution assessed the student, the institution must pay the resulting credit balance directly to the student or parent as soon as possible but no later than 14 days after the balance occurred if the credit balance occurred after the first day of class of a payment period.

Condition:

The University failed to disburse the credit balance of three (3) students, from a sample of sixty (60), within the 14 day period established by regulation.

Questioned Cost:

No questioned cost was identified.

Context:

We examined sixty (60) cases of a population of two-thousand, two-hundred and sixty-four (2,264) students who received Title IV funds and their accounts were credited by those funds during the fiscal year 2009-2010.

Effect:

The University retained funds for a period of time to which it is not entitled as per the regulation.

Cause:

The design of internal controls to ensure that disbursement of Title IV funds to students are not designed effectively to prevent or detect that all credit balances are disbursements to students within required time.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Program Findings

Recommendation:

We recommend that the University review their current procedures to identify credit balances in students' accounts in order to detect and perform payment of any credit balances within required timeframes.

Views of responsible officials and planned corrective actions:

The University concurs with the finding and has established a procedure to mitigate the finding.

The corrective action plan will allow for all students to sign a waiver form that allows the university to retain their credit balance to cover all charges. The credit balance waiver forms will then be used to generate checks immediately after the initial registration and related charges are covered; this should capture students who are eligible to receive credit balances.

In addition to the above a credit balance report will be run weekly and given to the cashier to process checks for all students with financial aid credit balances.

Contact persons responsible for corrective action:

Vice-provost for Access and Enrollment

Anticipated completion date:

February 28, 2011

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Program Findings

Finding number: 10-04**Federal programs information:**

U.S. Department of Education / Student Financial Assistance Cluster [Federal Family Education Loans (84.032) & Federal Direct Student Loans (84.268)]

Category

Internal Controls/Compliance

Compliance Requirement

Special Test and Provisions - Student Status Changes (FFEL and Direct Loan)

Criteria:

Pursuant 34 CFR 682.610 (c) (2) (i)- The institution shall notify the guaranty agency or lender within 30 days of if it discovers that a Stafford, SLS, or PLUS loan has been made to or on behalf of a student who enrolled at the institution but has ceased to be enrolled on at least a half-time basis, unless the institution expects to submit its next student status confirmation report to the Secretary or the guaranty agency within the next 60 days.

Condition:

The Institution did not notify to the guaranty agency or lender through the NSLDS in a timely manner the change in the enrollment status of nineteen (19) students out of twenty five (25) with federal loans during the academic period covering the fiscal year 2009 -2010. We noted that the University made the attempt to make the notification though the National Student's Clearinghouse, however, they encountered difficulties with the electronic file submission.

Questioned costs:

No questioned costs were identified.

Context:

We selected twenty-five (25) students who received Federal Family Education Loans and/or Direct Loans from a population of one-hundred and forty (140) students graduated or with withdraw from their courses.

Effect:

Failure to notify a change in enrollment status on time would preclude a lender from obtaining the necessary student's information in order to determine his/her status for billing and other required procedures.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Part III—Federal Program Findings

Cause:

The design of internal controls to ensure that the University notifies timely the change in status of a student is not effective at preventing or detecting delays in reporting these status changes.

Recommendation:

The University should improve the design of the controls to ensure timely notification of any change in status of students' recipients of Federal loans.

Views of responsible officials and planned corrective actions:

The University accepts the finding and will strengthen its internal control procedures over the reporting process.

- 1) In a case where a graduation file cannot be submitted the University will change the status to an enrollment file.
- 2) The University will establish policy to update the students records with a realistic graduation date and this will give the lender the opportunity to inform the students of his pending graduation and his/her responsibility to pay.

Contact persons responsible for corrective action:

Vice-provost for Access and Enrollment and Access

Anticipated completion date is:

August 15, 2011

University of the Virgin Islands

Summary of Schedule of Prior Year Audit Findings

September 30, 2010

Finding 09-01

CFDA	None
Name of Federal Program	None
Topic	Lack of controls over financial statement close process
Type of Compliance Requirement	None
Amount of Questioned Cost	None
Category	Internal Controls
Status	Comment repeated. See current year finding 10-01

Finding 09-02

CFDA	None
Name of Federal Program	None
Topic	Lack of controls over capitalization of assets
Type of Compliance Requirement	None
Amount of Questioned Cost	None
Category	Internal Controls
Status	Corrected

Finding 09-03

CFDA	Various
Name of Federal Program	Student Financial Assistance Cluster
Topic	Late remittances of Title IV credit balances
Type of Compliance Requirement	Special Tests and Provisions/Disbursements To or On Behalf of Students
Amount of Questioned Cost	None
Category	Compliance
Status	Comment repeated. See current year finding 10-03

University of the Virgin Islands

Summary of Schedule of Prior Year Audit Findings (continued)

Finding 09-04

CFDA	93.307
Name of Federal Program	Minority Health and Health Disparities Research
Topic	PSC-272 report not submitted
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	None
Category	Compliance
Status	Corrected

Finding 09-05

CFDA	93.632
Name of Federal Program	University Centers for Excellence in Developmental Disabilities, Education, Research, and Service
Topic	Report with unsupported reconciling items
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	\$24,187
Category	Compliance
Status	Corrected

Finding 09-06

CFDA	59.037
Name of Federal Program	Small Business Development Centers
Topic	Un-allowed program cost
Type of Compliance Requirement	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Amount of Questioned Cost	\$14,874
Category	Compliance
Status	Corrected

University of the Virgin Islands

Summary of Schedule of Prior Year Audit Findings (continued)

Finding 08-02

CFDA	None
Name of Federal Program	None
Major Program	None
Topic	Lack of controls over capitalization of assets
Type of Compliance Requirement	None
Amount of Questioned Cost	None
Category	Internal Controls
Status	Corrected

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