UNIVERSITY OF THE VIRGIN ISLANDS

St. Thomas, U.S. Virgin Islands

OMB Circular A-133 Audit

University Identification

Number 66 – 04 – 3251 – 4

Year ended September 30, 2011

UNIVERSITY OF THE VIRGIN ISLANDS

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University of the Virgin Islands
No. 2 John Brewers Bay
St. Thomas, Virgin Islands 00802

Lead Auditor:

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The University of the Virgin Islands (the University) has two campuses located in St. Thomas and St. Croix, respectively. The audit was conducted throughout the campuses as well as in the central office of the University, where the accounting and administration of the student financial aid programs are located. The audit was substantially performed from November 2011 to August 2012.

The University uses Educational Loan Servicing LLC (DBA Campus Partners), headquartered in Rockville, Maryland as their Federal Perkins Loan Program servicer. A review of Campus Partners' internal control structure and compliance with laws and regulations was performed by Porter, Keadle, Moore, LLP, from Atlanta, Georgia, who issued a report for the year ended June 30, 2011.

KPMG LLP
American International Plaza
Suite 1100
250 Muñoz Rivera Avenue
San Juan, PR 00918-1819

Independent Auditors' Report

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), as of and for the year ended September 30, 2011, 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, as well as evaluating the overall financial statement presentation. We believe that our audit provides a 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, 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2012 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.

The Management's Discussion and Analysis on pages 2 through 10 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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 University'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, Audits 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 the 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.

KPMG LLP

September 21, 2012

Stamp No. E44955 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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, 2011, with selected comparative information for the year ended September 30, 2010. 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.

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 purposes. The statement of net assets, along with all of the University's basic financial

(Continued)

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 2011	Fiscal Year 2010	Dollar Change
Current assets	$	22,940,897	24,807,709	(1,866,812)
Noncurrent assets:				
Capital assets, less accumulated depreciation		54,666,803	54,351,659	315,144
Other		47,069,997	48,357,708	(1,287,711)
Total assets		124,677,697	127,517,076	(2,839,379)
Current liabilities		9,702,198	14,405,853	(4,703,655)
Noncurrent liabilities		42,856,936	41,753,395	1,103,541
Total liabilities		52,559,134	56,159,248	(3,600,114)
Total net assets	$	72,118,563	71,357,828	760,735

Current Assets

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 $22.9 million cover the current liabilities of $9.7 million. The current ratio increased to 2.4 in fiscal year 2011 from 1.7 in fiscal year 2010. The reason for this increase is primarily due to a $4.7 million reduction in current liabilities which is related to the reclassification of accrued annual leave to noncurrent liabilities and reduction in deferred revenue.

Non Current Assets

Noncurrent assets include restricted cash and cash equivalents, endowment investments at fair value and capital assets. There was a slight increase of $0.3 million in noncurrent assets due to the increase in capital assets. Additionally, the University Foundation's (FUVI) investments decreased by $1.2 million and the University's endowment increased by $1.1 million from fiscal year 2010 to fiscal year 2011.

Capital Assets

One of the critical factors in continuing the quality of the University's academic and research programs is the development and renewal of capital assets. The University continues to implement its long-range plan to modernize its complement of older buildings along with a balanced investment in new construction. Capital assets additions totaled $3.2 million in fiscal year 2011 as compared with $4.0 million in fiscal year 2010. Capital asset additions primarily represent replacement and renovations of existing buildings, as well as significant investments in equipment. Depreciation expense was $2.5 million for fiscal year 2011 and $2.4 million in 2010. There was a $0.3 million net increase in capital assets.

Current Liabilities

Current liabilities consist of accounts payable, deferred revenue and the current portion of the long-term debt. Current liabilities totaled $9.7 million on September 30, 2011, as compared to $14.4 million on September 30, 2010. The overall decrease of $4.7 million in current liabilities is mainly related to the reclassification of the accrued annual leave of $4.5 million from current liabilities to noncurrent liabilities without considering the effects of this reclassification, current liabilities as of September 30, 2011 remained in line with September 30, 2010.

Noncurrent Liabilities, Including Long-Term Debt

Noncurrent liabilities consist of long-term debt and other obligations for which the principal is due more than one year from the balance sheet date. Noncurrent liabilities increased by $1.1 million in fiscal year 2011. The increase was due mainly to the net decrease in the redemption of the bonds payable with the new notes payable and an increase of $4.5 million due to the accrued annual leave reclassification.

During fiscal year 2000, the University issued its 1999 bonds to finance a portion of the cost to construct, furnish and equip various facilities of the University, to refund 1994 bonds, to fund a debt service reserve fund for the 1999 bonds, and to pay certain costs of issuance. During fiscal year 2004, the University issued its 2004 bonds to implement Phase II of the Capital Development Program as outlined in the University's Master Plan, which addressed additional costs to construct, furnish and equip various facilities of the University, to fund the debt service reserve fund and to pay for costs of issuance.

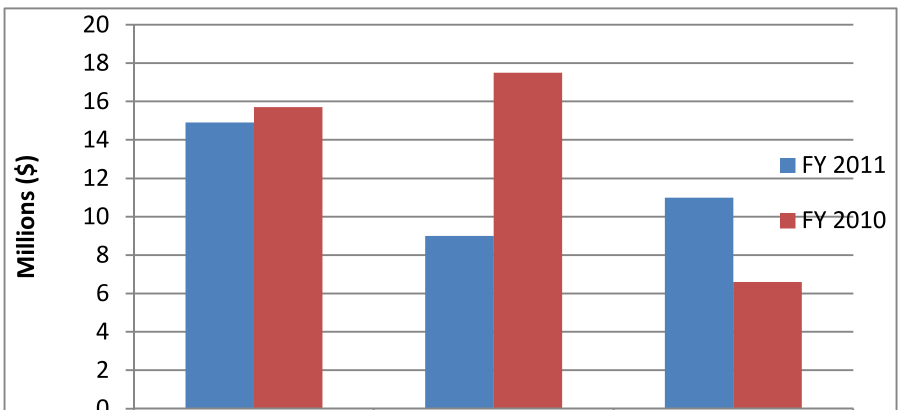
In June 2011, the University entered into two loan agreements (loan agreements) in relation to the issuance of the Future Advance Project Funding Series A 2011-2 Bond (Series 2011-2 Bonds) and the Future Advance Project Funding Series A 2011-3 Bond (Series 2011-3 Bonds). The proceeds of the Series 2011-2 Bonds and 2011-3 Bonds were primarily used to refund the 1999 bonds and to advance refund the 2004 bonds. The proceeds used to advance refund the 2004 bonds were placed in an account held in trust with the escrow agent to provide for all future debt service payments on the 2004 bonds.

Under the loan agreements, the University can request advances up to $44 million under the Series 2011-2 Bonds and up to $16 million under the Series 2011-3 Bonds. The advances as of September 30, 2011 for the Series 2011-2 Bonds and 2011-3 Bonds amounted to $43.4 million and $324,572, respectively.

Net Assets

Net assets represent the difference between University's assets and liabilities. Total net assets at September 30, 2011 and 2010 are $72.1 million and $71.3 million, respectively. The University's net assets at September 30, 2011 and 2010 are summarized as follows:

		Fiscal Year 2011	Fiscal Year 2010
Restricted	$	39,030,177	37,252,683
Unrestricted		7,565,328	7,545,633
Invested in capital assets, net of related debt		25,523,058	26,559,512
Total net assets	$	72,118,563	71,357,828



	Restricted	Unrestricted	Invested in capital assets, net of related debt
FY 2011	14.9	9	11
FY 2010	15.7	17.5	6.6

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. The change in this year's restricted nonexpendable net assets was mainly due to the receipt of a gift totaling $2 million.

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.

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, 2011. 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 nonoperating. The financial reporting model classifies local government appropriations and gifts as nonoperating 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, 2011 and 2010 follows:

		Fiscal Year 2011	Fiscal Year 2010	Dollar Change
Operating revenues:	$			
Tuition and fees, net		14,467,820	12,456,375	2,011,445
Grants and contracts		20,823,622	28,805,443	(7,981,821)
Auxiliary enterprises, net		3,826,628	4,491,523	(664,895)
Other operating revenues		441,881	573,007	(131,126)
Total operating revenues		39,559,951	46,326,348	(6,766,397)
Operating expenses		79,788,587	82,227,888	(2,439,301)
Operating loss		(40,228,636)	(35,901,540)	(4,327,096)
Nonoperating revenues (expenses):				
Local government appropriations		29,420,088	31,427,050	(2,006,962)
Federal Pell Grant Program		5,916,082	5,573,886	342,196
Other nonoperating income (loss)		4,208,320	2,823,050	1,385,270
Interest on indebtedness		(2,547,324)	(2,463,313)	(84,011)
Net nonoperating revenues		36,997,166	37,360,673	(363,507)
Loss before other revenues		(3,231,470)	1,459,133	(4,690,603)
Capital appropriations		3,992,205	3,192,205	800,000
Increase in net assets		760,735	4,651,338	(3,890,603)
Net assets				
Net assets at beginning of year		71,357,828	66,706,490	4,651,338
Net assets at end of year	$	72,118,563	71,357,828	760,735

The University supplements the funds it receives for student tuition and fees with local government appropriations, federal and local sponsored programs, private gifts and grants and investment income. Fiscal year 2011 appropriations went down by 6% from fiscal year 2010, making fiscal year 2011 one of the most challenging financial years for the University in over 20 years. 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 access to a quality education at an affordable cost. The fiscal year 2011 increase in net tuition and fees of $2 million is mainly due to tuition rates increase in the fall semester of 2011. Local government appropriations decreased by $2 million due to a reduction in the amount allocated by the government. The University continues to foster a strong relationship and partnership with the local government and recognizes the importance of its continued support.

The $8 million decrease in grants and contracts is primarily due to the Census program activity in fiscal year 2010 that did not carry over to fiscal year 2011. The Census program is a decennial activity.

Auxiliary enterprises include the bookstores, residence halls, campus housing, Sports and Fitness Center and the Reichhold Center. There was a decrease of $0.7 million in this area, which was comprised of an increase of $0.1 million from the bookstores, room fees and other room rentals and a decrease of $0.8 million from the Reichhold Center due to a decrease in the number of shows.

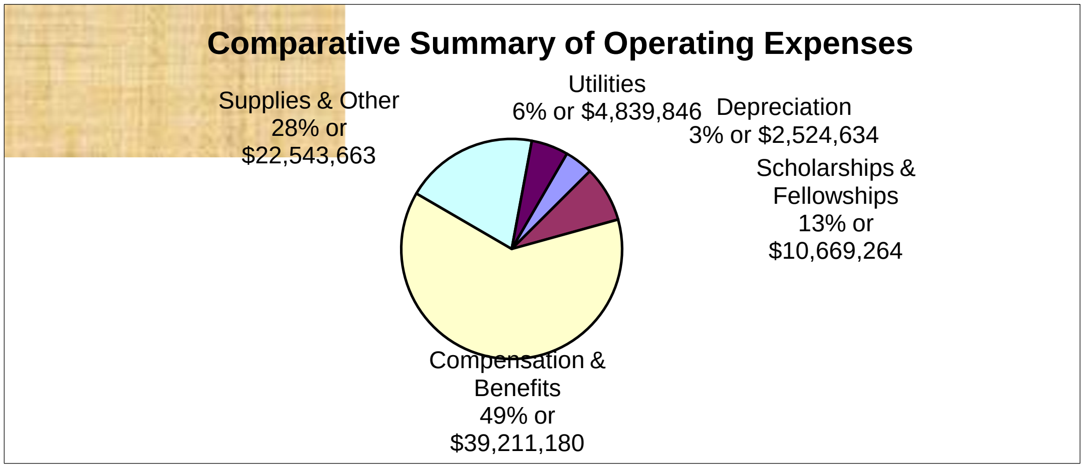
Other nonoperating revenues consist of investment income and gifts which continue to increase due to improving conditions in the economic market.

Other revenues consist of capital appropriations received from the Government to meet outstanding capital debt obligations which increased in fiscal year 2011.

For fiscal year 2011, operating expenses totaled $79.8 million including compensation and benefits of $39.2 million, supplies and other expenditures of $22.5 million, depreciation expense of $2.5 million, scholarships and fellowships of $10.7 million, and utilities of $4.8 million.

A comparative summary of the University's operating expenses for the years ended September 30, 2011 and 2010 is as follows:

		Fiscal Year 2011	Fiscal Year 2010
Compensation and benefits	$	39,211,180	44,010,496
Supplies and other		22,543,663	23,895,086
Depreciation		2,524,634	2,406,715
Scholarships and fellowships		10,669,264	8,013,263
Utilities		4,839,846	3,902,328
Total operating expenses	$	79,788,587	82,227,888

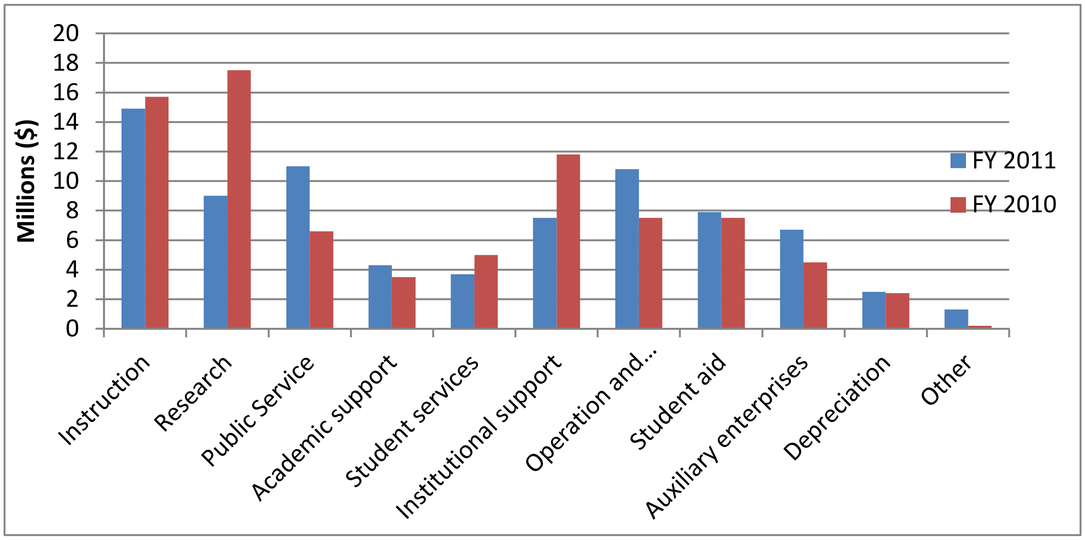


Compensation and benefits is the largest category of expenses. The University is committed to recruiting and retaining outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. There was a decrease in compensation and benefits between 2010 and 2011 due to additional expenses incurred in FY2010 as a result of the Census program. Additionally, effective July 2011 employees' salaries in excess of $26,000 were reduced by 8% in accordance with local law.

Supplies and other expenses increased due to the increase in 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, 2011 and 2010 is as follows:

		Fiscal Year 2011	Fiscal Year 2010
Function:			
Instruction	$	14,916,934	15,737,797
Research		9,042,371	17,541,423
Public service		11,026,048	6,574,956
Academic support		4,269,912	3,480,959
Student services		3,721,801	4,995,889
Institutional support		7,503,744	11,833,256
Operation and maintenance of plant		10,830,323	7,538,113
Student aid		7,871,268	7,499,436
Auxiliary enterprises		6,735,046	4,453,926
Depreciation		2,524,634	2,406,715
Other		1,346,506	165,418
Total expenses by function	$	79,788,587	82,227,888



Expenditures in the area of research decreased in fiscal year 2011 due to the cessation of the Census activity; while expenditures in the operation and maintenance of plant area increased due to American Reinvestment and Recovery Act (ARRA) funded projects which improved the University's physical plant.

Factors Impacting Future Periods

During fiscal year 2011, the University felt the impact of the negative global economy. The University's President and his cabinet continue to find new ways to address the loss of revenues whether from the local government or other loss due to the decline in enrollment.

As in the past the University continues to forge ahead in 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 2010/2011 period include:

- Acquired reaffirmation of accreditation for the Nursing Program (BSN) for an additional 8 years.
- Established a Center for Student Success.
- Received approval for CELL to serve as an approved Prometric Test Center with the capacity to offer over 400 national professional and entrance exams.
- Constructed a Restroom/Shower Facility at John Brewers Bay.
- Conducted the first Male Empowerment Conference with more than 3,000 males in attendance.
- Established and commenced implementation of a renovation plan to address critical existing facilities issues on both campuses over the period 2010-2012.
- Implemented a plan to sustain the leadership and technical skills of the University to produce continuous, high-quality service.

- Established an Institutional Advancement component Professional Development Plan.
- Established an output reporting mechanism to measure the effectiveness of the Service Charters.
- Increased the number/quality of publications produced by units in Research and Public Services (RPS).
- Established the following three centers: Caribbean Green Technology Center, Center for the Study of Spirituality and Professionalism, and the Center for Alternative and Complimentary Medicine.
- Increased the number of alumni contributors to 12.75% of the alumni population.
- Commenced Summer Bridge and Junior University programs to help students transition to college and assist middle school male students in their academic pursuits.
- Developed a database of skills, interests and achievements of UVI personnel for use in responding to related needs by the USVI community and of the University.

Request for Information

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

UNIVERSITY OF THE VIRGIN ISLANDS

Statement of Net Assets

September 30, 2011

Assets	University	Component Unit Reichhold Foundation
Current assets:		
Cash and cash equivalents	$ 11,698,761	105,844
Restricted cash and equivalents	978,797	—
Accounts receivable, net of allowance of $1,049,297	8,585,476	—
Inventories	821,158	—
Prepaid expenses and other current assets	856,705	—
Total current assets	22,940,897	105,844
Noncurrent assets:		
Restricted cash and cash equivalents	17,151,069	—
Restricted deposits with bond trustee	2,777,040	—
Investments at fair value	—	9,010,501
Restricted investments at fair value	25,955,020	—
Capital assets, net	54,666,803	—
Other assets	1,186,868	—
Total noncurrent assets	101,736,800	9,010,501
Total assets	$ 124,677,697	9,116,345
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,505,660	—
Due to the University	—	173,173
Deferred revenue	3,693,557	—
Current portion of long term debt	1,502,981	—
Total current liabilities	9,702,198	173,173
Noncurrent liabilities:		
Long-term debt	37,558,761	—
Accrued vacation	4,560,875	—
Other long-term liabilities	737,300	—
Total noncurrent liabilities	42,856,936	—
Total liabilities	$ 52,559,134	173,173
Net assets		
Invested in capital assets, net of related debt	$ 25,523,058	—
Restricted nonexpendable	9,980,929	—
Restricted expendable:		—
Grants	22,167,816	
Scholarships and fellowships	1,231,554	
Loans	1,077,791	
Debt service	3,826,737	
Other	745,350	
Unrestricted	7,565,328	8,943,172
Total net assets	$ 72,118,563	8,943,172

See accompanying notes to basic financial statements.

UNIVERSITY OF THE VIRGIN ISLANDS

Statement of Revenues, Expenses and Changes in Net Assets

Year ended September 30, 2011

	University	Component Unit Reichhold Foundation
Revenues:		
Operating revenues:		
Tuition and fees (net of scholarship allowance of $241,905)	$ 14,467,820	—
Federal grants and contracts	18,442,285	—
State grant and contracts	2,381,337	—
Auxiliary enterprises	3,826,628	—
Other	441,881	—
Total operating revenues	39,559,951	—
Expenses:		
Salaries:		
Faculty	10,105,312	—
Exempt staff	12,528,609	—
Nonexempt wages	7,733,947	—
Benefits	8,843,312	—
Scholarships	10,669,264	—
Contributions to the University	—	600,000
Utilities	4,839,846	—
Supplies and other services	21,533,879	19,182
Depreciation	2,524,634	—
Other expenses	1,009,784	—
Total operating expenses	79,788,587	619,182
Operating loss	(40,228,636)	(619,182)
Nonoperating revenues (expenses):		
Local government appropriation	29,420,088	—
Federal Pell Grant Program	5,916,082	—
Gifts	3,199,369	—
Net investment income	1,008,951	35,933
Interest on indebtedness	(2,547,324)	—
Total nonoperating revenues (expenses), net	36,997,166	35,933
Decrease in net assets before capital appropriations	(3,231,470)	(583,249)
Capital appropriations	3,992,205	—
Increase (decrease) in net assets	760,735	(583,249)
Net assets beginning of year, as restated, see note 1	71,357,828	9,526,421
Net assets end of the year	$ 72,118,563	8,943,172

See accompanying notes to basic financial statements.

UNIVERSITY OF THE VIRGIN ISLANDS

Statement of Cash Flows

Year ended September 30, 2011

		University
Cash flows from operating activities:		
Tuition and fees	$	12,790,546
Grants and contracts		19,737,468
Auxiliary enterprises and other		4,321,373
Payments to suppliers and vendors		(21,441,845)
Payments to employees		(30,367,868)
Payments for utilities		(4,402,964)
Payments for benefits		(9,038,610)
Payments for scholarships and fellowships		(10,669,264)
Net cash used in operating activities		(39,071,164)
Cash flows from non-capital financing activities:		
Local government appropriations		29,420,088
Pell grant		5,916,082
Endowment gifts		2,000,000
Gifts and grants for other than capital purposes		1,199,369
Net cash provided by non-capital financing activities		38,535,539
Cash flows from investing activities:		
Proceeds from sales and maturities of investments		5,107,106
Investment income		1,008,951
Purchases of investments		(4,979,561)
Net cash provided by investing activities		1,136,496
Cash flows from capital and related financing activities:		
Capital appropriations		3,992,205
Net purchases of capital assets		(2,880,731)
Proceeds from capital debt		43,759,645
Principal paid on refunded bonds		(40,020,882)
Principal paid on capital debt		(833,577)
Interest paid on capital debt		(2,405,290)
Costs of issuance		(5,021,795)
Decrease in deposits held with bond trustees		1,392,204
Net cash used in capital and related financing activities		(2,018,221)
Net change in cash and cash equivalents		(1,417,350)
Cash and cash equivalents at beginning of year		31,245,977
Cash and cash equivalents at end of year	$	29,828,627

UNIVERSITY OF THE VIRGIN ISLANDS

Statement of Cash Flows

Year ended September 30, 2011

		University
Reconciliation of net operating loss to net cash used in operating activities:		
Operating loss	$	(40,228,636)
Adjustments to reconcile operations loss to net cash used in operating activities:		
Depreciation		2,524,634
Changes in assets and liabilities, net:		
Grants and contracts receivables, net		(844,249)
Student receivables, net		(170,404)
Other accounts receivables, net		52,864
Inventories		35,594
Prepaid expenses and other current assets		(258,176)
Accounts payable and accrued liabilities		1,565,984
Deferred revenue		(1,748,775)
Net cash used in operating activities	$	(39,071,164)

See accompanying notes to basic financial statements.

(1) Reporting Entity and Summary of Significant Accounting Policies

(a) 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 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) Statement No. 14, *The Financial Reporting Entity*, (GASB No. 14), as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, (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. 14 and 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.

(b) Component Units

Blended Component Unit: In accordance with GASB No. 14, a blended component unit is an entity for whom the University is financially accountable and a) whose governing body is substantively the same as the University's governing body, or b) that provides services entirely or almost entirely to the University itself or for which the services provided benefit the University exclusively or almost exclusively. The following is reported as a blended component unit:

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. Because the University appoints a voting majority of the Foundation's governing body and is able to impose its will on the Foundation as defined by GASB 14, and because the Foundation provides services entirely to the University, the Foundation has been determined to be a blended component unit.

Discrete Component Unit: In accordance with GASB No. 14 and GASB No. 39, a discretely presented component unit is an entity for whom the University is financially accountable but a) whose governing body is not substantively the same as the University's governing body or b) that does not provide services entirely or almost entirely to the University itself or for which the services provided do not benefit the University exclusively or almost exclusively. In addition, GASB No. 14 further states that entities for which the University is not financially accountable could still be considered to be component units if their nature and significance of their relationship with the University are such that exclusion would cause the University's financial statements to be misleading or incomplete. Specifically, GASB No. 39 amended GASB No. 14 to clarify that entities for which the University is not financially accountable would need to be included in the University's financial statements via discrete presentation if a) the economic resources received or held by the entity are entirely or almost entirely for the direct benefit of the University; b) the University is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the entity, and; c) the economic resources received or held by the entity that the University is entitled to, or has the ability to otherwise access, are significant to the University.

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 resources (and income thereon) which the Reichhold Foundation holds and invests are restricted to the activities of the University. Since the University does not appoint a voting majority of the Reichhold Foundation's governing body, nor is the Reichhold Foundation fiscally dependent on the University, the University is not considered to be financially accountable for the Reichhold Foundation. However, as the resources held by the Reichhold Foundation can only be used by, or for the benefit of the University, the Reichhold Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

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

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

(c) 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, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*

(GASB 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's reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board opinions, and Accounting Review Boards of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The University has elected not to apply FASB statements and interpretations issued after November 30, 1989.

(d) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and disclosures of contingencies at the date of the financial statements and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

(e) 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.

(f) Investments

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

(g) Students and Other Receivables

Students and other receivables are reported at the estimated net realizable amount.

(h) Inventories

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

(i) Deferred Debt Issuance Costs

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

(j) Capital Assets

The University's capital assets consist of land, buildings, infrastructure and improvements, furniture and equipment, library resources, and construction in progress. Capital assets are recorded at cost or, if donated, at fair value at the date of donation. It is the policy of the University to capitalize expenditures according to the Board-approved thresholds by category (see below) and to remove from the accounts major items retired. Net interest costs on debt related to construction in progress are capitalized. No interest cost was capitalized for the year ended September 30, 2011. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for buildings and infrastructure, 5 to 20 years for equipment and library materials, including computer and computer software, and 7 to 30 years for land improvements. Renovations to buildings and other capital assets that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

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

(k) 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, 2011, approximately $3,693,557 of tuition and fees collected that relate to the remainder of the fall semester are deferred.

(l) 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, it is generally the University's practice to use restricted resources first, then unrestricted resources when they are needed.

(m) Classification of Revenues and Expenses

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

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

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

(n) 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 Nonexchange Transactions* (GASB No. 33), and are not recorded as assets until the related gift has been received.

(o) Grants and Contracts

The University has been awarded grants and contracts for which the funds have not been received or expenses made for the purpose specified in the award. These awards have not been reflected in the accompanying financial statements, but represent commitments of sponsors to provide funds for specific research or training projects. For grants that have allowable cost provisions, the revenue will be recognized as the related expenditures are made. For other grants the revenue is recognized as it is received.

(p) Scholarship Discount and Allowances

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

(q) Change in Fiscal Year – Reichhold Foundation

During the year ended September 30, 2011, the Reichhold Foundation changed its fiscal year end from March 31 to September 30 in order to coincide with the University's fiscal year end. Accordingly, net assets as of beginning of the year have been restated to conform to the new fiscal year as follows:

		Net assets beginning of the year (as restated)
Net assets end of the year, as previously reported on September 30, 2010 (as of March 31, 2010)	$	9,659,737
Decrease in net assets during the six-month period ended on September 30, 2010:		
Contribution payments to the University		(359,000)
Supplies and other services		(17,131)
Net investment income		242,815
Total change		(133,316)
Net assets beginning of the year (as restated)	$	9,526,421

(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, 2011, 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, 2011, cash and cash equivalents amounted to approximately $11.7M and restricted cash equivalents $979,000.

(3) Accounts Receivable

The University's accounts receivable as of September 30, 2011 are composed of the following:

U. S. Virgin Islands Government	$	1,884,383
U. S. Federal Government		3,492,878
Student		2,221,358
Due from related party, see note 13		1,099,273
Other		936,881
		9,634,773
Less allowance for doubtful accounts		(1,049,297)
Accounts receivable, net	$	8,585,476

(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 for Administration and Finance. The University is in the process of finalizing a formal investment policy for review and approval by the Board of Trustees, which will contain a requisite section on addressing risks. In February 2012, the Foundation issued an investment policy, including a section on addressing risks. The members of the Board of Trustees of the Reichhold Foundation are responsible for their specific investment policy.

The University's investments consist of monies from the following sources: Land grant Endowment fund, Quasi-endowment fund, Equities and Mutual funds. The Land Grant Endowment fund and the Quasi-endowment fund are invested in U.S. Treasury bills and notes.

The University's investments as of September 30, 2011 consist of the following:

		Fair value
U.S. Treasury bills and notes	$	1,722,061
Deposits		197,212
Corporate bonds		4,847,272
Equities		2,765,020
Mutual funds		16,423,455
	$	25,955,020

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

The Reichhold Foundation’s investments as of September 30, 2011 consist of:

		Fair value
U.S. treasuries	$	42,874
Corporate bonds		721,416
Equities		3,020,633
Mutual funds		5,225,578
	$	9,010,501

(a) 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.

(b) Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The prices of fixed income securities with longer maturity time tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations.

Below is a table showing the University’s fixed income investments maturity dates in years:

Years until maturity		1-2	2-5	5-10	10-15	15-20	20+	Total
US Treasury bills and notes	$	—	—	—	503,083	777,195	441,783	1,722,061
CD's		98,875	98,337	—	—	—	—	197,212
Corporate bonds		107,416	195,731	708,855	498,147	113,036	3,224,087	4,847,272
Total	$	206,291	294,068	708,855	1,001,230	890,231	3,665,870	6,766,545

Below is a table showing the Reichhold Foundation’s fixed income investments maturity dates in years:

Years until maturity		1-2	2-5	5-10	10-15	15-20	20+	Total
US Treasury bills and notes	$	288	1,565	—	—	827	40,194	42,874
Corporate bonds		156,714	540,630	24,072	—	—	—	721,416
Total	$	157,002	542,195	24,072	—	827	40,194	764,290

(c) Credit Risk

Credit risk is the risk that the University and the Reichhold Foundation will not recover their investment due to the ability of the counterparty to fulfill its obligation. The University's and the Reichhold Foundation's investments issued or explicitly guaranteed by the United States government are not considered to be exposed to credit risk. Currently, the University's and the Reichhold Foundation's investments in debt securities are limited to only those in the top investment grade ratings issued by a nationally recognized statistical rating organization.

As of September 30, 2011, the University's credit quality distribution for securities was as follows:

	Carrying value	Standard and poor's ratings
Corporate bonds	$ 534,172	AAA
Corporate bonds	203,398	AA+
Corporate bonds	525,200	AA
Corporate bonds	412,742	AA-
Corporate bonds	152,189	A+
Corporate bonds	1,856,439	A
Corporate bonds	45,056	A-
Corporate bonds	15,722	BBB
Corporate bonds	1,102,354	Not rated
Total corporate bonds	$ 4,847,272	

As of September 30, 2011, the Reichhold Foundation's credit quality distribution for securities was as follows:

	Carrying value	Standard and poor's ratings
Corporate bonds	$ 112,115	AA
Corporate bonds	273,092	A
Corporate bonds	54,913	AA-
Corporate bonds	102,653	A-
Corporate bonds	98,413	BBB
Corporate bonds	26,500	D
Corporate bonds	53,730	Not rated
Total corporate bonds	$ 721,416	

(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.

(6) Capital Assets

Changes in capital assets for the year ended September 30, 2011 are as follows:

	Beginning balance	Additions	Reductions	Ending balance
Capital assets not being depreciated:				
Land	$ 5,438,112	—	—	5,438,112
Capital assets being depreciated:				
Land improvements	2,082,428	—	(40,952)	2,041,476
Buildings, fixed equipment, improvements and infrastructure	71,551,995	1,401,418	—	72,953,413
Equipment and library materials	20,588,859	1,479,312	(51,768)	22,016,403
Total capital assets being depreciated	94,223,282	2,880,730	(92,720)	97,011,292
Less accumulated depreciation:				
Land improvements	(1,810,282)	(22,773)	—	(1,833,055)
Buildings, fixed equipment, improvements and infrastructure	(27,635,314)	(1,518,749)	—	(29,154,063)
Equipment and library materials	(15,864,139)	(983,112)	51,768	(16,795,483)
Total accumulated depreciation	(45,309,735)	(2,524,634)	51,768	(47,782,601)
Total capital assets being depreciated, net	48,913,547	356,096	(40,952)	49,228,691
Total capital assets, net	$ 54,351,659	356,096	(40,952)	54,666,803

(7) Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended September 30, 2011 are as follows:

		Beginning balance	Additions	Reductions	Amortization	Ending balance	Less amounts due within one year	Noncurrent liabilities
Notes payable – HBCU	$	—	43,759,645	—	—	43,759,645	1,380,629	42,379,016
Notes payable – other		1,733,184	—	115,970	—	1,617,214	122,352	1,494,862
Bonds payable		40,745,881	—	40,745,881	—	—	—	—
Loss on refunding		(1,930,449)	(4,533,994)	—	149,326	(6,315,117)	—	(6,315,117)
Total notes and bonds payable		40,548,616	39,225,651	40,861,851	149,326	39,061,742	1,502,981	37,558,761
Accrued vacation		4,756,173	1,237,916	1,433,214	—	4,560,875	—	4,560,875
Other long-term liabilities		115,300	822,000	—	—	937,300	200,000	737,300
Total	$	45,420,089	41,285,567	42,295,065	149,326	44,559,917	1,702,981	42,856,936

Bonds and notes payable are further disclosed below in note 8.

(8) Notes and Bonds Payable

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 to construct, furnish and equip 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 December 1, 1999, between the University and the Trustee. This advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $2.9 million that is being reported in the accompanying financial statements as a deduction from notes payable and is being charged to operations using a method that approximates the effective interest method. The remaining balance of this difference amounts to $1.8 million as of September 30, 2011.

During 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 December 1, 1999 and a First Supplemental Indenture of Trust dated July 1, 2004, between the University and the Trustees. These Bonds were used to implement Phase II of the Capital Development Program as outlined in the University's Master Plan, which addressed additional costs to construct, furnish and equip various facilities of the University, to fund the debt service reserve fund and to pay cost of issuance.

In June 2011, the University entered into two capital project loan agreements (loan agreements) with Rice Capital Access Program, LLC in relation to their issuance of the Future Advance Project Funding Series A 2011-2 Bond (Series 2011-2 Bonds) and the Future Advance Project Funding Series A 2011-3 Bond (Series 2011-3 Bonds). The proceeds of the Series 2011-2 Bonds were primarily used to refund the 1999 Series A Bonds and to refund the 2004 Series A Bonds. The 1999 Series A Bonds were redeemed at a redemption price of 101% of par. The proceeds used to refund the 2004 Series A Bonds were placed in an account held in trust with the escrow agent to provide for all future debt service payments on the 2004 Series A Bonds. As a result, the 2004 Series A Bonds are considered to be defeased and the liability for those bonds has been removed from the accompanying statement of net assets. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of approximately $4.5 million. This difference, reported in the accompanying financial statements as a deduction from notes payable, is being charged to operations using a method that approximates the effective-interest method. The University completed the current and advance refunding to reduce its total debt service payments over the next 23 years by $13.4 million and to obtain an economic gain of $6.8 million. The proceeds of the 2011-3 Bonds are also being used to pay for construction costs of a 100 bed student residence facility and to pay other construction improvement costs of facilities on both campuses.

Under the loan agreements, the University can request advances up to $44,000,000 under the Series 2011-2 Bonds and up to $16,000,000 under the Series 2011-3 Bonds. The advances as of September 30, 2011 for the Series 2011-2 Bonds and 2011-3 Bonds amounted to $43,435,073 and $324,572, respectively. The 2011-2 Bonds have a maturity date of August 1, 2034, and the 2011-3 Bonds have a maturity date of August 1, 2040. Interest payments are due February and August. Interest on the 2011-2 Bonds is calculated at 3.484% and interest on the 2011-3 Bonds is calculated from the date of each advance using the long-term U.S. Treasury Rate on that day plus 22.5 basis points, which was 2.885% on September 30, 2011.

In January 2007, the University entered into an agreement with a vendor to pay for services incurred during the research of a Wind Turbine project. The original amount of the note was $450,000 payable in 120 equal monthly installments of $4,828 including interest at 5.25% per annum. As of September 30, 2011, the amount outstanding was $269,000.

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, 2011, the amount outstanding was $1,348,214. 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.

Future principal and interest payments on notes payables follow:

		Principal	Interest	Total
Fiscal year ending September 30, 2011:				
2012	$	1,380,629	1,605,089	2,985,718
2013		1,438,950	1,549,946	2,988,896
2014		1,491,844	1,497,052	2,988,896
2015		1,539,653	1,447,244	2,986,897
2016		1,608,117	1,380,779	2,988,896
2017-2021		8,647,529	6,026,575	14,674,104
2022-2026		9,930,832	4,347,544	14,278,376
2027-2031		11,396,743	2,505,208	13,901,951
2032-2036		7,873,840	504,670	8,378,510
2037-2040		68,722	5,956	74,678
Total	$	45,376,859	20,870,063	66,246,922

(9) Leases

The University has several noncancelable operating leases, primarily for the facilities being used by the University's Small Business Development Center and the University's premises in St. John, which expire over the next four years. These leases generally contain renewal options for periods ranging from one to five years.

Future minimum lease payments under noncancelable operating leases as of September 30, 2011 are as follows:

Year ending December 31:		
2012	$	91,800
2013		100,200
2014		102,600
2015		106,200
Total minimum lease payments	$	400,800

(10) 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, 2011, the University had accrued $4,560,875 for vacation.

(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.

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

The TIAA-CREF plan is a defined contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. The number of active participants from the University in the TIAA-CREF plan amounted to 255 as of September 30, 2011.

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

The GERS plan is a contributory, cost-sharing multiple-employer 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, 2011 are 243 (total GERS participants from all employers approximate 15000).

Total pension expenditures for the year ended September 30, 2011 are summarized below:

TIAA-CREF	$	2,361,031
GERS		1,441,638
	$	3,802,669

(12) Functional Information

The University's operating expenses by functional classification as of September 30, 2011 were as follows:

Functional classification		Salaries and benefits	Supplies and other services	Scholarships and other services	Utilities	Depreciation	Other expenditures	Total
Instruction	$	13,124,287	1,258,193	366,274	38,163	—	130,017	14,916,934
Research		3,946,450	4,435,688	322,597	150,070	—	187,566	9,042,371
Public service		4,219,303	5,515,057	1,076,302	41,130	—	174,256	11,026,048
Academic support		3,250,336	907,466	7,614	1,116	—	103,380	4,269,912
Student services		2,478,363	802,229	—	441,209	—	—	3,721,801
Institutional support		6,832,680	410,214	4,700	20,221	—	235,929	7,503,744
Operation and maintenance of plant		4,161,922	3,009,939	—	3,534,167	—	124,295	10,830,323
Student aid		121,194	268,417	7,481,657	—	—	—	7,871,268
Auxiliary enterprises		1,076,645	4,926,676	101,097	613,770	—	16,858	6,735,046
Depreciation		—	—	—	—	2,524,634	—	2,524,634
Other		—	—	1,309,023	—	—	37,483	1,346,506
Total	$	39,211,180	21,533,879	10,669,264	4,839,846	2,524,634	1,009,784	79,788,587

(13) Related Party Transactions

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

(14) Contingencies

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

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

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

(15) Significant New Accounting Pronouncements

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. This Statement addresses financial reporting and disclosure requirements of certain financial instruments and external investment pools. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. This Statement is effective for periods beginning after June 15, 2010. The adoption of this statement did not have a significant impact on the University's financial statements.

Future Adoption of GASB Statements

Following are statements issued by GASB that are effective in future years. The impact of the adoption of these statements has not been determined by management:

Statement Number		Adoption Required in Fiscal Year
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2012
60	Accounting and Financial Reporting for Service Concession Arrangements	2012
61	The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements No. 14 and 34	2013
62	Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30,1989 FASB and AICPA Pronouncements	2013
63	Financial reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2013
64	Derivative instruments: Application of Hedge Accounting Termination Provisions	2012
65	Items Previously Reported	2013
66	Technical Corrections – 2012, an amendment of GASB Statements No. 10 and No. 62	2013

UNIVERSITY OF THE VIRGIN ISLANDS

Schedule of Expenditures of Federal Awards

September 30, 2011

	Federal Grantor/Program Titl	CFDA No.	Direct Award	Major Programs: Research and Development Cluster	Major Programs: Student Financial Assistance	Major Programs: College Access Challenge Grant	Major Programs: State Fiscal Stabilization Fund	Major Programs: Small Business Development	Other Programs	Total Federal
	U.S. Department of Health and Human Services:									
1	AIDS Education & Training Centers	93.145	No	$ 98,616	—	—	—	—	—	98,616
2	Environmental Public Health & Emergency Respons	93.070	No	53,169	—	—	—	—	—	53,169
	Minority Health & Health Disparities Researcl	93.307	Yes	1,278,798	—	—	—	—	—	1,278,798
	Administration for Children & Families-Head Star	93.600	Yes	—	—	—	—	—	170,425	170,425
	University Ctrs for Excellence Developmental Disabilities (UAP	93.632	Yes	528,763	—	—	—	—	—	528,763
	ARRA – Trans-NIH Recovery Act Research Suppor	93.701	Yes	526,677	—	—	—	—	—	526,677
	Biomedical Research and Research Training	93.859	Yes	583,320	—	—	—	—	—	583,320
	Nursing Student Loans Prior Year Accumulated Balance	93.364	Yes	—	37,462	—	—	—	—	37,462
3	Family & Community Violence Prevention Progran	93.91	No	—	—	—	—	—	3,474	3,474
	Total U.S. Department of Health and Human Services			3,069,343	37,462	—	—	—	173,899	3,280,704
	U.S. Department of Agriculture:									
	Agricultural Experimental Station under HATCH Ac	10.203	Yes	930,546	—	—	—	—	—	930,546
4	Sustainable Agricultural Research & Education	10.215	No	8,301	—	—	—	—	—	8,301
5	Integrated Programs	10.303	No	41,494	—	—	—	—	—	41,494
6	Homeland Security-Agricultural	10.304	No	4,616	—	—	—	—	—	4,616
7	Resident Instruction Grants for Insular Areas	10.308	No	7,180	—	—	—	—	—	7,180
	Grants for Agricultural Research, Special Research Grant	10.200	Yes	49,854	—	—	—	—	—	49,854
8	Grants for Agricultural Research, Special Research Grant	10.200	No	(988)	—	—	—	—	—	(988)
9	Small Farmer Outreach Training	10.443	No	15,844	—	—	—	—	—	15,844
	Cooperative Extension Service	10.500	Yes	1,211,571	—	—	—	—	—	1,211,571
10	Cooperative Extension Service	10.500	No	(7,097)	—	—	—	—	—	(7,097)
11	Organic Ag Research & Extension Initiative	10.307	No	(4,838)	—	—	—	—	—	(4,838)
	Total U.S. Department of Agriculture			2,256,483	—	—	—	—	—	2,256,483
	U.S. Department of Education:									
	Federal Supplemental Education Opportunity Grant	84.007	Yes	—	39,615	—	—	—	—	39,615
12	Special Education Formula Grants	84.027	No	—	—	—	—	—	(1,194)	(1,194)
13	Special Education Formula Grants	84.027	No	—	—	—	—	—	(24,223)	(24,223)
	Federal Work Study Program	84.033	Yes	—	82,788	—	—	—	—	82,788
	TRIO – Upward Bound	84.047	Yes	—	—	—	—	—	476,525	476,525
	Federal Pell Grant Program	84.063	Yes	—	5,916,082	—	—	—	—	5,916,082
	Assistive Technology	84.224	Yes	—	—	—	—	—	200,797	200,797
	Assistive Technology	84.224	Yes	—	—	—	—	—	320	320
	Higher Education Institutional Aid	84.031	Yes	—	—	—	—	—	2,385,487	2,385,487
	Academic Competitiveness Grants	84.375	Yes	—	125,825	—	—	—	—	125,825
	National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	Yes	—	56,000	—	—	—	—	56,000
	College Access Challenge Grant	84.378	Yes	—	—	1,245,253	—	—	—	1,245,253
14	ARRA – State Fiscal Stabilization Fund	84.397	No	—	—	—	1,395,567	—	—	1,395,567
15	State Grants for Innovative Programs	84.298	No	—	—	—	—	—	(39,197)	(39,197)
	Direct Student Loan Program	84.268	Yes	—	4,873,143	—	—	—	—	4,873,143
	Perkins Loans Prior Year Accumulated Balance	84.038	Yes	—	137,730	—	—	—	—	137,730
	Perkins Loans Current Year Originations	84.038	Yes	—	11,500	—	—	—	—	11,500
16	National Writing Project	84.928	No	—	—	—	—	—	25,855	25,855
	Total U.S. Department of Education			—	11,242,683	1,245,253	1,395,567	—	3,024,370	16,907,873
	U.S. Department of Housing & Urban Development:									
	Historically Black Colleges Universities Progran	14.520	Yes	—	—	—	—	—	175,318	175,318
	U.S. Department of Labor:									
	Consultation Agreements	17.504	Yes	—	—	—	—	—	270,778	270,778
	U.S. Department of the Interior:									
	Economic, Social & Political Division of Territories	15.875	Yes	—	—	—	—	—	(32,599)	(32,599)
17	Economic, Social & Political Division of Territories	15.875	No	—	—	—	—	—	1,210	1,210
	Assistant to State Water Resource Research	15.805	Yes	103,990	—	—	—	—	—	103,990
	Geological Survey Research and Data Acquisitior	15.808	Yes	57,547	—	—	—	—	—	57,547

UNIVERSITY OF THE VIRGIN ISLANDS

Schedule of Expenditures of Federal Awards

September 30, 2011

	Federal Grantor/Program Title	CFDA No.	Direct Award	Major Programs: Research and Development Cluster	Major Programs: Student Financial Assistance	Major Programs: College Access Challenge Grant	Major Programs: State Fiscal Stabilization Fund	Major Programs: Small Business Development	Other Programs	Total Federal
	Native American Graves Protection	15.922	Yes	16,463	—	—	—	—	—	16,463
	Total U.S. Department of the Interior			178,000	—	—	—	—	(31,389)	146,611
	National Endowment for the Arts:									
	Promotion of Humanities Division of Preservation	45.149	Yes	—	—	—	—	—	5,022	5,022
	National Science Foundation:									
	Biological Sciences	47.074	Yes	2,752	—	—	—	—	—	2,752
	Geosciences	47.05	Yes	13,608	—	—	—	—	—	13,608
18	Geosciences	47.05	No	659	—	—	—	—	—	659
19	Computer & Info Systems Science & Engineering	47.07	No	16,982	—	—	—	—	—	16,982
	Education & Human Resources	47.076	Yes	3,129,067	—	—	—	—	—	3,129,067
20	Education & Human Resources	47.076	No	3,442	—	—	—	—	—	3,442
	Total National Science Foundation			3,166,510	—	—	—	—	—	3,166,510
	Small Business Administration:									
	Small Business Development Center	59.037	Yes	—	—	—	—	713,011	—	713,011
	Environmental Protection Agency:									
21	Pollution Prevention Grants	66.708	No	(240)	—	—	—	—	—	(240)
	U.S. Department of Commerce:									
	Census Bureau Data Products	11.001	Yes	(25,616)	—	—	—	—	—	(25,616)
22	Sea Grant Support NOAA	11.417	No	36,688	—	—	—	—	—	36,688
	Financial Assistance for National Ctrs for Coastal Ocean Science	11.426	Yes	33,542	—	—	—	—	—	33,542
	Fisheries Development & Utilization	11.427	Yes	93,303	—	—	—	—	—	93,303
23	Unallied Science Program NOAA	11.472	No	10,582	—	—	—	—	—	10,582
24	Coastal Services Center NOAA	11.473	No	124,206	—	—	—	—	—	124,206
	Cooperative Fisheries Statistics NOAA	11.434	Yes	19,208	—	—	—	—	—	19,208
	ARRA – Habitat Conservation	11.463	Yes	53,472	—	—	—	—	—	53,472
25	ARRA – Habitat Conservation	11.463	No	46,365	—	—	—	—	—	46,365
	Total U.S. Department of Commerce			391,750	—	—	—	—	—	391,750
	Total			$ 9,061,846	11,280,145	1,245,253	1,395,567	713,011	3,617,998	27,313,820

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

1 University of South Florida
2 University of Florida
3 Central State University
4 University of Georgia
5 University of Florida ($4,684.94)
University of Rhode Island ($46,179.28)
6 University of Florida
7 University of Guam
8 Mississippi State University (-$1,072.00)
University of Florida ($84.00)
9 University of Hawaii
10 University of Georgia
11 University of Florida
12 V.I. Dept. of Education Special Ed Grants to States
13 V.I. Inclusive Early Childhood
14 ARRA-Office of the Governor (Capital Improvement Projects)
15 V.I. Dept. of Education Special Ed Grants to States
16 National Writing Project
17 University of North Carolina-Wilmington
18 Cornell University
19 Broader Participation in Computing Alliance
20 University of Florida
21 Rutgers State University of New Jersey
22 University of Puerto Rico

UNIVERSITY OF THE VIRGIN ISLANDS

Schedule of Expenditures of Federal Awards

September 30, 2011

Federal Grantor/Program Title	CFDA No.	Direct Award	Major Programs: Research and Development Cluster	Student Financial Assistance	College Access Challenge Grant	State Fiscal Stabilization Fund	Small Business Development	Other Programs	Total Federal
23 Fish & Wildlife Research Institute									
24 University of Puerto Rico									
25 Virgin Islands Resource Conservation & Development Project									

See accompanying notes to schedule of expenditures of federal awards.

(1) Basis of Presentation

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

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

(2) Accounting Policies for Loans and Loan Guarantees

The University participates in the Federal Direct Student Loans (Direct Loans) Program of the U.S. Department of Education. Loans made through the Direct Loans program are provided by various private lenders and are insured by guaranty agencies and reinsured by the federal government; accordingly, the disbursements under the Direct Loans program and the outstanding loan balances are excluded from the financial statements of the University. Federal expenditures for these loans are determined when loans are made to students. The balance of loans for previous years is not considered federal expenditures of the current year because the private lenders account for them. Direct Loans are made by the U.S. Secretary of Education.

The University also administers and participates in the following federal loan programs: Federal Perkins Loans and Nursing Student Loans. Loans made through these programs are provided by the University with advances from the federal government; accordingly, the disbursements under these programs and the outstanding loan balances are included in the financial statements of the University. Federal expenditures for these loans are defined as the value of new loans made during the year plus the balance of loans from previous years for which the federal government imposes continuing compliance requirements.

(3) Noncash Program

The financial statements of the University include the following note payable to the U.S. Department of Education, which is not included in the accompanying schedule of expenditures of federal awards:

Note payable in semiannual installments of $75,284, including interest, due on November 2023, with interest at 5.5%, and secured by a general obligation of the Government of the Virgin Islands	$	1,348,214

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

Board of Trustees
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, 2011, which collectively comprise the University's basic financial statements and have issued our report thereon dated September 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the University is responsible for establishing and maintaining effective 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 opinions 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 over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting 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 discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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 in the University's internal control over financial reporting described in the accompanying schedule of findings and questioned costs as Findings No. 2011-1, 2011-2, 2011-3, 2011-4, 2011-5, and 2011-6 to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we will report to management of the University in a separate letter.

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 responses and, accordingly, we express no opinion on them.

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.

KPMG LLP

September 21, 2012

Stamp No. E44965 of the Puerto Rico
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was affixed to the record copy of this report.

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Independent Auditors' 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 *U.S. 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, 2011. 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 of America; 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.

As described in Findings No. 2011-9 and No. 2011-15 in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding allowable costs/cost principles and sub-recipient monitoring that are applicable to its U.S. Department of Education College Access Challenge Grant program (CFDA No. 84.378). Compliance with such requirements is necessary, in our opinion, for the University to comply with the requirements applicable to that program.

Also, as described in Findings No. 2011-8, 2011-11, 2011-12, 2011-13, and 2011-14 in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding allowable costs/cost principles, procurement, suspension and debarment, and, equipment and real property management that are applicable to its Research and Development Cluster (CFDA No. 10.203, 10.500, 47.076, 93.307, and 93.895); and procurement, suspension and debarment and equipment and real property management that are applicable to its U.S. Department of Education State Fiscal Stabilization Fund program (CFDA No. 84.397). Compliance with such requirements is necessary, in our opinion, for the University to comply with the requirements applicable to the Research and Development Cluster and U.S. Department of Education State Fiscal Stabilization Fund programs.

In our opinion, because of the effects of the noncompliance described in the second preceding paragraph, the University did not comply in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its U.S. Department of Education College Access Challenge Grant program (CFDA No. 84.378) for the year ended September 30, 2011.

Also, in our opinion, except for the noncompliance described in the fourth paragraph, 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, 2011. The results of our auditing procedures also disclosed other 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 Findings No. 2011-7 and No. 2011-10.

Internal Control over Compliance

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 the 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 the University's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance 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 discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Findings No. 2011-8, 2011-9, 2011-11, 2011-12, 2011-13, 2011-14, 2011-15 to be material weaknesses.

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 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.

KPMG LLP

September 21, 2012

Stamp No. E44964 of the Puerto Rico
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was affixed to the record copy of this report.

UNIVERSITY OF THE VIRGIN ISLANDS

Schedule of Findings and Questioned Costs

Year ended September 30, 2011

Part I – Summary of Auditors' Results

(a) The type of report issued on the financial statements: **[Unqualified opinion]**

(b) Significant deficiencies in internal control over financial reporting identified that are not considered to be material weaknesses: **[No]** Material weaknesses identified: **[Yes]**

(c) Noncompliance that is material to the financial statements: **[No]**

(d) Significant deficiencies in internal control over major programs that are not considered to be material weaknesses: **[No]** Material weaknesses identified: **[Yes]**

(e) The type of report issued on compliance for major programs:

Major program	CFDA number	Type of report
Student Financial Assistance Cluster	Various	Unqualified
Research and Development Cluster	Various	Qualified
State Fiscal Stabilization Fund	84.397	Qualified
College Access Challenge Grant	84.378	Adverse
Small Business Development Center	59.037	Unqualified

(f) Any audit findings disclosed that are required to be reported under Section 0.510(a) of OMB Circular A-133?: **[Yes]**

(g) Dollar threshold used to distinguish between Type A and Type B programs: **$819,415**

(h) Auditee qualified as a low-risk auditee under Section 0.530 of OMB Circular A-133: **[No]**

Part II – Findings Relating to the Financial Statements that are Required to be Reported in Accordance with *Government Auditing Standards*

Finding No. 2011 – 1 – Financial Statement Close Process

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 the University to prepare timely and accurate financial statements. This process helps the University ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review. The financial statement close process begins with accounting data recorded in the University's financial systems, including identification and documentation of relevant disclosures that are required under generally accepted accounting principles.

Situation

As part of our audit of the financial statements, we noted the following deficiencies in internal control over financial reporting:

- *Cash reconciliations*: Inadequate segregations of duties, reconciliations are not properly prepared, and reconciling items are not being properly accounted for.
- *Accounts receivable*: Accounts Receivable balances are not properly reconciled and recorded in the correct accounts.
- *Overall segregation of duties*: For most accounting processes there are inadequate segregation of duties.

Due to their nature and magnitude, these deficiencies are considered to be material weaknesses.

Cause

The University's management has not adopted and enforced adequate internal controls policies and procedures over its accounting and financial reporting processes.

Effect

Audit misstatements were identified as a result of these deficiencies. The continued existence of these deficiencies could result in material misstatements to the financial statements, cost disallowances by the Federal awarding agencies due to unsupported or inappropriate costs, or ultimately, in the reduction or elimination of Federal awards received by the University.

Recommendation

The University should implement internal controls to provide reasonable assurance that transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and maintain accountability over assets on a timely basis.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding. At the June 9, 2012, Board of Trustees Meeting, the Board approved a series of Financial Policies, including policies covering fiscal responsibility and internal controls. With respect to cash reconciliations and accounts receivable, the University will ensure that a proper segregation of duties exists and that appropriate reviews are conducted to provide reasonable assurance regarding the reliability and integrity for financial transactions entered into the University's Banner system and subsequently recorded into the University's financial statements.

Contact person responsible for corrective action:	Vice President for Administration and Finance
Anticipated completion date:	March 31, 2013

Finding No. 2011 – 2 – Allowance for Doubtful Accounts

Criteria

The estimate of the allowance for doubtful accounts should be quantitatively and qualitatively supported, which includes the consideration of historical data and behavior as well as current economic conditions. Also, the estimate should be properly reviewed and reconciled with the respective underlying data to ensure its accuracy.

Situation

As part of our audit of the financial statements, we noted the following matters:

- There were some receivable balances that had not been analyzed for recoverability.
- The general ledger had not been adjusted to reflect the allowance for doubtful accounts that had been calculated in accordance with the University's current methodology.

Audit misstatements resulted from these situations. Due to their nature and magnitude, these deficiencies are considered to be material weaknesses.

Cause

The University did not perform an adequate review of its allowance estimation and calculation process, including that the general ledger is updated accordingly.

Effect

The University's allowance for doubtful accounts is not adequately supported.

Recommendation

We recommend that the University strengthen its current internal controls over the estimation of the allowance for doubtful accounts, including updating its current policy.

(Continued)

Views of Responsible Officials and Planned Corrective Actions

The University concurs with the finding. To address this matter, the University will establish a formal policy which outlines the methodology to ensure that all receivable balances have been analyzed for recoverability and consistently applies the methodology in order to make a determination regarding an amount for the allowance for doubtful accounts. In addition, the University will ensure that the general ledger is adjusted to reflect the amount identified as the allowance for doubtful accounts.

Contact person responsible for corrective action:	Vice President for Administration and Finance
Anticipated completion date:	September 30, 2012

Finding No. 2011 – 3 – Capital Assets

Criteria

A fundamental element of a sound system of asset management is an effective review and reconciliation of its subsidiary ledger. This process helps ensure that all capital assets transactions are properly recorded and appropriately supported.

Situation

As part of our audit of the financial statements, we noted the following deficiencies in internal control:

- The University does not have a formal process in place to review the different activities performed by its third party service provider, which include: the maintenance of the capital assets sub-ledger records, the calculation of depreciation expense, and the performance of physical inventory procedures over current year equipment purchases.
- The University does not have adequate controls over the retirement of capital assets.
- The University incorrectly recorded certain deposits as capital assets.

Due to their nature and magnitude, these deficiencies are considered to be material weaknesses.

Cause

The University's management has not adopted and enforced adequate internal controls policies and procedures over its accounting and financial reporting processes over capital assets.

Effect

Errors could result in the accounting and financial reporting process over capital assets and would not be detected or prevented in a timely manner.

Recommendation

We recommend the University to strengthen its current internal control procedures over capital assets to ensure that the activities performed by its third-party service provider are adequately reviewed and that all related accounting processes are adequate.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding. To address this matter, the University will develop a procedure which outlines the activities undertaken by the University to validate the activities conducted by the University's third party service provider; the University will develop a procedure to consistently document the disposal of capital assets in accordance with the policy on the Disposition of University Surplus Property, as approved by the Board of Trustees at its June 9, 2012, Board of Trustees meeting; and the University will ensure that it appropriately records prepayments (and conducts reversing entries as necessary) for capital assets paid but not received at fiscal year end.

Contact person responsible for corrective action:	Controller
Anticipated completion date:	October 31, 2012

Finding No. 2011 – 4 – Investments

Criteria

The University's internal controls over investment balances should allow for the timely identification of differences and the accuracy of the investment accounting records. They should also include a process to adequately review the fair values assigned to each investment.

Situation

As part of our audit of the financial statements, we noted the following deficiencies in internal control over financial reporting:

- No formal investment policy has been established by the University.
- The University does not currently maintain an investment subsidiary ledger or prepare a roll-forward of its investments.
- The University does not have a process to review the fair values being provided by the money managers.
- The University did not account correctly the fair value of one investment.

An audit misstatement was proposed for the investment that had not been properly recorded. Due to their nature and magnitude, these deficiencies are considered to be material weaknesses.

Cause

The University has not adopted and enforced adequate internal controls policies and procedures over the accounting and financial reporting of investments.

Effect

The investment balances may not be properly reconciled and the respective investments may not be properly stated at fair value.

Recommendation

The University should strengthen its current internal control procedures over investments to ensure that balances are properly reconciled and fair values adequately reviewed.

Views of Responsible Officials and Planned Corrective Actions

The University partially concurs with this finding. The University is in the process of drafting a proposed Investment Policy for approval by the Board of Trustees. As a result of the FY 2011 external audit, the University has developed an investment portfolio and will review and update the portfolio on a monthly basis. At the discretion of the University's Board of Trustees and the members of the Foundation for the University of the Virgin Islands, consideration will be given to hiring a third party provider to review the fair market values reported by the University's and Foundation's money managers. The University will ensure that it receives up-to-date information from the Foundation prior to recording investment information in the University's financial statements. Although the University appreciates the observation that neither the University nor the Foundation has a process in place to review the fair market values recorded by the money manager, there is no indication that this matter requires further action at this time; accordingly, the University only partially concurs with this situation.

Auditor's Comments

Although the University partially concurs with this finding, KPMG reaffirms that the matters noted in the "Situation" section of this finding constitute a material weakness in internal controls over financial reporting.

Contact person responsible for corrective action:	Controller
Anticipated completion date:	March 31, 2013

Finding No. 2011 – 5 – Debt

Criteria

A fundamental element of adequate internal controls over financial reporting is an effective accounting process over debt transactions to aid the University in ensuring that all debt transactions are properly recorded and appropriately supported.

Situation

As part of our audit of the financial statements, we noted the following deficiencies in internal control:

- The University did not properly account for the debt refunding and defeasance transaction.

- The University did not properly amortize debt issue costs.
- The University did not properly accrue interest payable on current outstanding bonds.
- The University did not properly account for certain interest and principal payments.

Several audit misstatements were proposed to record debt accounts at their correct balances. Due to their nature and magnitude, these deficiencies are considered to be material weaknesses.

Cause

The University has not adopted and enforced adequate internal controls policies and procedures over its accounting and financial reporting over debt balances.

Effect

Debt related transactions were accounted for incorrectly.

Recommendation

We recommend the University strengthen its current internal controls to ensure the accuracy and proper accounting of debt related transactions.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding and will obtain assistance from a knowledgeable local CPA firm to assist the University with accurately recording debt-related transactions into its Banner system and the University's financial statements.

Contact person responsible for corrective action: Controller

Anticipated completion date: March 31, 2013

Finding No. 2011 – 6 – Completeness of Accounts Payable

Criteria

A fundamental element of a sound system of accounts payable is an effective review and reconciliation of the accounts payable aging. This process helps us ensure the completeness and accuracy of accounts payable balances at year end.

Situation

As part of our audit of the financial statements, we noted that the University does not have an adequate process in place to ascertain the completeness and accuracy of its accounts payable balances.

Audit misstatements were proposed to record the accounts payable balances at their proper amounts. Due to its nature and magnitude, this deficiency is considered to be a material weakness.

(Continued)

Cause

The University does not have a process in place to adequately identify and account for amounts for which services or products have been received but not yet paid.

Effect

The University's accounts payable balances were incorrect.

Recommendation

We recommend that the University establish a process in which the completeness of its accounts payable can be ensured.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding and will substantially change the manner in which goods and services are procured at the University. Specifically, the University will implement a requisition/purchase order/invoice process or a standing order process in order to identify liabilities, and the University will substantially reduce the quantities of invoices processed through a check requisition, as this process precludes the University from encumbering funds and recording an accounts payable in its system. In order to implement this process, the University will need to educate its workforce and ensure compliance with Purchasing Policies approved by the Board of Trustees at its June 9, 2012 meeting.

Contact person responsible for corrective action: Controller

Anticipated completion date: March 31, 2013

Part III – Findings and Questioned Costs Relating to Federal Awards

Finding No. 2011 – 7 – Reporting

CFDA Number

#59.037

Program Name

Small Business Development Center (SBDC)

Name of Federal Agency

Small Business Administration (SBA)

Criteria

In accordance with Cooperative Agreement 1-603001-Z-0158 Section 6(e)(1) – Federal Financial Reports are due within 30 days after completion of each calendar quarter of operation.

In accordance with CFR Title 13 Section 130.820 (c), the annual report shall include the second semiannual or the fourth quarter report and shall be due December 30 for fiscal year and March 30 for calendar year SBDCs. These reports shall reflect accurately the activities, accomplishments and deficiencies of the SBDC network.

Condition Found, Including Perspective

In testing compliance with the Reporting Requirement of the Small Business Jobs Act Grant we noted that the third quarter Federal Financial Report (SF 425) and the first and third quarter Performance Reports were submitted after the 30 day period allowed after the completion of each calendar quarter of operation. We also noted that the SBDC Grant Annual Report was submitted after the December 30 due date.

- SBJA First Quarter Performance Report submitted on 5/6/11 (6 days late)
- SBJA Third Quarter Performance Report submitted on 11/14/11 (14 days late)
- SBJA Third Quarter Financial Report (SF 425) submitted on 11/2/11 (3 days late)
- SBDC Annual Report submitted on 1/5/12 (5 days late)

Cause

Internal controls to ensure the timely submission of the Financial and Performance Reports were not operating effectively.

Effect

The University did not comply with the requirements of submitting the required reports within the established timeframe.

Questioned Cost ***None***

Recommendation

The University should improve the procedures to ascertain that the Financial and Performance Reports are submitted in a timely manner within the required timeframes.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding. SBDC has improved its internal processes with respect to the submission of Financial and Performance Reports by implementing specific actions to ensure the timely submission of these Reports. Specifically, SBDC has developed a time-line to ensure that key personnel collect, track, and register data in order to ensure that data is available to timely submit the required Reports.

Contact person responsible for corrective action: Director of SBDC

Anticipated completion date: September 30, 2012

Finding No. 2011 – 8 – Allowable Costs/Cost Principles

CFDA Number

#10.203, #10.500

Program Name

Research and Development (R&D) Cluster

Name of Federal Agency

Department of Agriculture

Criteria

In accordance with OMB Circular A-87 Attachment B item 8(h)(3) – Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Condition Found, Including Perspective

During our test work for allowable costs for the R&D Cluster we selected 28 employees for testing the submission and approval of the time and effort sheet during fiscal year 2011. For 6 out of the 28 employees tested, time and effort certifications were not submitted.

Cause

Internal controls to ensure the timely submission of time and effort sheets by employees and approval by the Program Director were not operating effectively.

Effect

The University is not in compliance with the requirement established by the federal guidelines as it relates to its R&D Cluster.

Questioned Cost ***$165,674, salary applicable to the program for employees that did not submit time and effort sheets.***

Recommendation

The University should improve the procedures to ascertain the timely submission of Time and Effort sheets by employees and approval by the Program Director.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding and will ensure that employees who are compensated under a Federal award prepare a timesheet which duly records the hours worked under the Federal award and is certified by a supervisory official having firsthand knowledge of the work performed by the employee. To effectively implement this action, the Vice President for Administration and Finance will communicate the compliance expectations of this matter to Principal Investigators and other employees working under Federal awards. With respect to this particular finding, the University concurs that it did not adhere to the compliance requirements regarding certification of time; however, the University also notes that there is no indication of abuse of time; rather this is a matter of a lack of support for costs claimed against the grant. Accordingly, the costs claimed are unsupported but are not unallowable in accordance with the terms and conditions of the grant award.

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

Anticipated completion date: September 30, 2012

Finding No. 2011 – 9 – Allowable Costs/Cost Principles

CFDA Number

#84.378

Program Name

College Access Challenge Grant

(Continued)

Name of Federal Agency

Department of Education

Criteria

In accordance with OMB Circular A-87 Attachment B item 8(h)(3) – Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

Condition Found, Including Perspective

In testing compliance with the Federal Timekeeping Requirement of the College Access Challenge Grant (CACG) we noted that employees do not submit a time and effort sheet for their work performed in the program.

Cause

Internal controls to ensure the timely submission of time and effort sheets by employees and approval by the Program Director were not operating effectively.

Effect

The University was not in compliance with the time and effort requirements established by federal regulations as it relates to the CACG program.

Questioned Cost ***$81,834, total payroll charged to the program***

Recommendation

The University should improve the procedures to ascertain the timely submission of time and effort sheets by employees and approval by the Program Director.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding and will ensure that employees who are compensated under a Federal award prepares a timesheet which duly records the hours worked under the Federal award and is certified by a supervisory official having firsthand knowledge of the work performed by the employee. To effectively implement this action, the Vice President for Administration and Finance will communicate the compliance expectations of this matter to Principal Investigators and other employees working under Federal awards.

Contact person responsible for corrective action:	Vice President for Administration and Finance
Anticipated completion date:	September 30, 2012

Finding No. 2011 – 10 – Reporting

CFDA Number

#84.378

Program Name

College Access Challenge Grant

Name of Federal Agency

Department of Education

Criteria

According to the Higher Education Act (HEA) of 1965, as amended, grantees funded under the College Access Challenge Grant (CACG) Program are required to submit annual performance reports. There are two parts to the performance report and each part has a respective due date. Part 1 addresses the implementation of activities and services as well as fiscal administration. Part 2 collects data relative to program performance measures. Part 1 of the report is due on May 15 following the close of the first performance semester of August 14 thru April 15 (for FY 2011 Part 1 of the report was due on May 15, 2011). Part 2 of the report is due on August 31 following the close of the second performance semester of April 16 thru August 13 (for FY 2011 Part 2 of the report was due on August 31, 2011).

Situation

The University did not meet the deadline to submit Part 2 of the annual performance report to the U.S. Department of Education (USDOE).

Cause

Internal controls to ensure the timely submission of the annual performance report were not operating effectively.

Effect

The University is not in compliance with the annual performance reporting requirements established in CACG program regulations.

Questioned Cost ***None***

Recommendation

The University should improve the procedures to ascertain the timely submission of annual performance reports to the U.S. Department of Education.

Views of Responsible Officials and Planned Corrective Actions

The University partially concurs with this finding. According to the Program Director, the Virgin Islands Department of Education (VIDOE) is unable to timely provide the University with requisite information for the Annual Performance Report. To address this matter, the University will provide preliminary data to the U. S. Department of Education (USDOE) in its submission of the Annual Performance Report; subsequently, the University will provide the USDOE with final data upon receipt of such information from the VIDOE. This process will allow the University to comply with the August 31 reporting deadline. Although the University understands that it is in noncompliance with the Part 2 reporting deadline, the University believes that this condition occurs through no fault of its own; accordingly, the University only partially concurs with this situation. The University submitted Part 2 of the annual performance report on May 2, 2012.

Auditor's Comments

Although the University partially concurs with this finding, KPMG reaffirms that the matters noted in the "Situation" section of this finding constitute an instance of non compliance.

Contact person responsible for corrective action: Program Director

Anticipated completion date: August 31, 2012

Finding No. 2011 – 11 – Procurement, suspension and debarment

CFDA Title and Number

#93.307

Program Name

R&D Cluster

Name of Federal Agency

Department of Health Human Services

Criteria

As per OMB Circular A-110 Subpart C Section 43, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, and invitations for bids and/or requests for proposals shall be excluded from competing for such procurements. Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, and quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient. Any and all bids or offers may be rejected when it is in the recipient's interest to do so.

Criteria Found, Including Perspective

From the 6 vendors selected for testing from the R&D Cluster, we noted that 2 vendors were provided with contracts without an open bid or a sole justification form for FY 2011

Cause

The design of internal controls to ensure that the University complies with the procurement requirement in federal regulations is not effective at preventing or detecting events of noncompliance.

Effect

The University is not in compliance with the procurement requirements in the federal regulations.

Questioned Cost ***$58,082***

Recommendation

The University should improve the design of the controls to ensure compliance with the procurement requirements when entering into an agreement with a vendor.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding and will ensure that procurements conducted under Federal awards and in excess of the competitive procurement threshold are appropriately put out to bid or contain a rational, sole source explanation in the procurement file.

Contact person responsible for corrective action:	Controller
Anticipated completion date:	Immediately

Finding No. 2011 – 12 – Procurement, Suspension and Debarment

CFDA Title and Number

#84.397

Program Name

State Fiscal Stabilization Fund (SFSF)

Name of Federal Agency

Department of Education

Criteria

As per OMB Circular A-110 Subpart C Section 43, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, and invitations for bids and/or requests for proposals shall be excluded from competing for such procurements. Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, and quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient. Any and all bids or offers may be rejected when it is in the recipient's interest to do so.

Condition Found, Including Perspective

During our procurement test work for the SFSF we noted that out of the 13 procurement transactions selected for testing, 1 of them was given without performing the bidding process.

Cause

The design of internal controls to ensure that the University complies with the procurement requirement in federal regulations is not effective at preventing or detecting events of noncompliance.

Effect

The University is not in compliance with the procurement requirements in the federal regulation.

Questioned Cost ***$56,000***

Recommendation

The University should improve the design of the controls to ensure compliance with the procurement requirements when entering into an agreement with a vendor.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding and will ensure that procurements conducted under Federal awards and in excess of the competitive procurement threshold are appropriately put out to bid or contain a rational, sole source explanation in the procurement file.

Contact person responsible for corrective action: Controller

Anticipated completion date: Immediately

Finding No. 2011 – 13 – Equipment and Real Property Management

CFDA Number

#84.397

Program Name

State Fiscal Stabilization Fund (SFSF)

Name of Federal Agency

Department of Education

Criteria

As per OMB Circular A-110 Subpart C Section 34, a physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency.

Condition Found, Including Perspective

The University hired a third party (American Appraisals) to perform limited procedures over the additions and disposals made during the year. However, a full physical inventory is not performed. As such, we noted that the University does not properly perform inventories over federally purchased assets.

Cause

Internal controls to ensure compliance with the equipment requirement as per federal regulation are not operating effectively.

Effect

The University is not in compliance with the equipment and real property management compliance requirements for its State Fiscal Stabilization Fund program.

Questioned Cost ***Undetermined***

Recommendation

The University should improve the procedures to ascertain that all equipment is counted at least once every two years to comply with regulations and to ensure proper safeguards over assets.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding and will ensure that its third party service provider conducts a physical inventory of all equipment purchased under Federal awards at least once every two years.

Contact person responsible for corrective action: Controller

Anticipated completion date: September 30, 2012

Finding No. 2011 – 14 – Equipment and Real Property Management

CFDA Number

#93.895, 10.500, 47.076

Program Name

R&D Cluster

Name of Federal Agency

Department of Health and Human Services/Department of Agriculture/National Science Foundation

Criteria

As per OMB Circular A-110 Subpart C Section 34, a physical inventory of equipment shall be taken and the results reconciled with the equipment records at least once every two years. Any differences between quantities determined by the physical inspection and those shown in the accounting records shall be investigated to determine the causes of the difference. The recipient shall, in connection with the inventory, verify the existence, current utilization, and continued need for the equipment.

A control system shall be in effect to insure adequate safeguards to prevent loss, damage, or theft of the equipment. Any loss, damage, or theft of equipment shall be investigated and fully documented; if the equipment was owned by the Federal Government, the recipient shall promptly notify the Federal awarding agency.

Condition Found, Including Perspective

The University hired a third party (American Appraisals) to perform limited procedures over the additions and disposals made during the year. However, a full physical inventory is not performed. As such, we noted that the University does not properly perform inventories over federally purchased assets.

Cause

Internal controls to ensure compliance with the equipment and real property management requirement as per federal regulations are not operating effectively.

Effect

The University is not in-compliance with the equipment and real property management requirements for its R&D cluster as established by federal regulations.

Questioned Cost ***Undetermined***

Recommendation

The University should improve the procedures to ascertain that all equipment is counted at least once every two years to comply with regulations and to ensure proper safeguards over assets.

(Continued)

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding and will ensure that its third party service provider conducts a physical inventory of all equipment purchased under Federal awards at least once every two years.

Contact person responsible for corrective action: Controller

Anticipated completion date: September 30, 2012

Finding No. 2011 – 15 – Sub-Recipient Monitoring

CFDA Number

#84.378

Program Name

College Access Challenge Grant (CACG)

Name of Federal Agency

Department of Education

Criteria

As per OMB Circular A-133, a pass-through entity shall perform the following procedures (among others) for all subawards made to subrecipients:

(1) Monitor the subrecipient's use of federal awards through reporting, site visits, regular contact, or other means to provide reasonable assurance that the subrecipient administers federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

(2) Ensuring that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 and that the required audits are completed within 9 months of the end of the subrecipient's audit period.

(3) Issuing a management decision on audit findings within 6 months after receipt of the subrecipient's audit report.

(4) Ensuring that the subrecipient takes timely and appropriate corrective action on all audit findings. In cases of continued inability or unwillingness of a subrecipient to have the required audits, the pass-through entity shall take appropriate action using sanctions.

Situation

While performing our testwork for subrecipient monitoring procedures performed by the University over its subrecipients under the CACG Grant, we noted that the University did not perform the procedures described above.

Cause

The design of internal controls to ensure that the University complies with the subrecipient monitoring requirement in federal regulations is not effective at preventing or detecting events of noncompliance.

Effect

The University is not in compliance with the sub-recipient monitoring requirement established by federal regulations.

Questioned Cost ***$1,000,000***

Recommendation

The University should improve the design of the controls to ensure compliance with the subrecipient monitoring requirements when entering into an agreement with a subrecipient.

Views of Responsible Officials and Planned Corrective Actions

The University concurs with this finding and will develop procedures and implement monitoring techniques, as appropriate, to ensure compliance with OMB Circular A-133.

Contact person responsible for corrective action: Program Director

Anticipated completion date: September 30, 2012