



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

University of the Virgin Islands
Year Ended September 30, 2012

Ernst & Young LLP

 **ERNST & YOUNG**

University of the Virgin Islands

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

Year Ended September 30, 2012

Contents

Report of Independent Auditors1

Management’s Discussion and Analysis3

Financial Statements

Statement of Net Assets16

Statement of Revenues, Expenses and Changes in Net Assets.....18

Statement of Cash Flows20

Notes to Financial Statements.....22

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*.....44

Single Audit Report

Report of Independent Auditors 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-13346

Schedule of Expenditures of Federal Awards.....49

Notes to Schedule of Expenditure of Federal Awards.....53

Schedule of Findings and Questioned Costs.....55

Summary Schedule of Prior Year Audit Findings69

Financial Statements

Report of Independent Auditors

Board of Trustees
University of the Virgin Islands

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the University of the Virgin Islands (the University), a component unit of the Government of the U.S. Virgin Islands, as of and for the year ended September 30, 2012, which collectively comprise the University's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the University's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

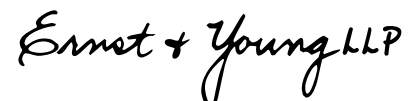
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the University as of September 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The financial statements of the University as of September 30, 2011 and for the year then ended were audited by other auditors. As described in Note 2, the University has recorded adjustments to restate certain balances. We did not apply any audit procedures to such adjustments and, therefore, they are unaudited.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2013, 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.

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 3 through 15 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic financial statements. The other financial information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by OMB Circular A-133 and is not required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

November 27, 2013, except for
the schedule of expenditures
of federal awards for which
the date is December 12, 2013

University of the Virgin Islands

Management's Discussion and Analysis

Year Ended September 30, 2012

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, 2012, with selected comparative information for the year ended September 30, 2011. 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. 14, as amended by 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. 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.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Using the Financial Statements

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

Statement of Net Assets

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

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Statement of Net Assets (continued)

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

	Fiscal Year 2012	Fiscal Year 2011	\$ Change
Assets			
Current assets	\$ 21,463,588	\$ 22,940,897	\$ (1,477,309)
Noncurrent assets			
Capital assets, less accumulated depreciation	68,453,407	54,666,803	13,786,604
Other	46,880,020	47,069,997	(189,977)
Total assets	136,797,015	124,677,697	12,119,318
 Liabilities			
Current liabilities	10,553,537	9,702,198	851,339
Noncurrent liabilities	50,962,381	42,856,936	8,105,445
Total liabilities	61,515,918	52,559,134	8,956,784
Total net assets	\$ 75,281,097	\$ 72,118,563	\$ 3,162,534

Current Assets

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

The University's current assets of \$21.5 million cover the current liabilities of \$10.6 million. The current ratio decreased to 2.0 in fiscal year 2012 from 2.4 in fiscal year 2011. The reason for this decrease is primarily due to the increase in the current portion of the long-term liabilities.

Non-Current Assets

Noncurrent assets include restricted cash and cash equivalents, endowment investments at fair value, student loans receivable and capital assets. There was an increase of \$13.6 million in noncurrent assets due to the increase in capital assets mainly from the addition of a new 100-bed Residence Hall on the University's St. Thomas Campus.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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 \$16.8 million in fiscal year 2012 as compared with \$2.9 million in fiscal year 2011. Capital asset additions primarily represent replacement and renovations of existing buildings, as well as significant investments in equipment. Depreciation expense was \$2.8 million for fiscal year 2012 and \$2.5 million in 2011. There was a \$13.8 million net increase in capital assets due mainly to the addition of the new 100-bed Residence Hall.

Current Liabilities

Current liabilities consist of accounts payable, deferred revenue and the current portion of the long-term liabilities. Current liabilities totaled \$10.6 million on September 30, 2012, as compared to \$9.7 million on September 30, 2011. The overall increase of \$0.9 million in current liabilities is mainly related to the increase in the current portion of the long-term debt.

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 \$8.1 million in fiscal year 2012. The increase occurred because of proceeds from the HBCU Loan.

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.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Noncurrent Liabilities, including Long-Term Debt (continued)

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, 2012 for the Series 2011-2 Bonds and 2011-3 Bonds amounted to \$42.2 million and \$11.3 million, respectively. The increase in the Series 2011-3 was due primarily to finance the construction of an 100-bed Residence Hall on the St. Thomas Campus and the Research and Technology Park (RT Park) building on the Albert A. Sheen St. Croix Campus.

Net Assets

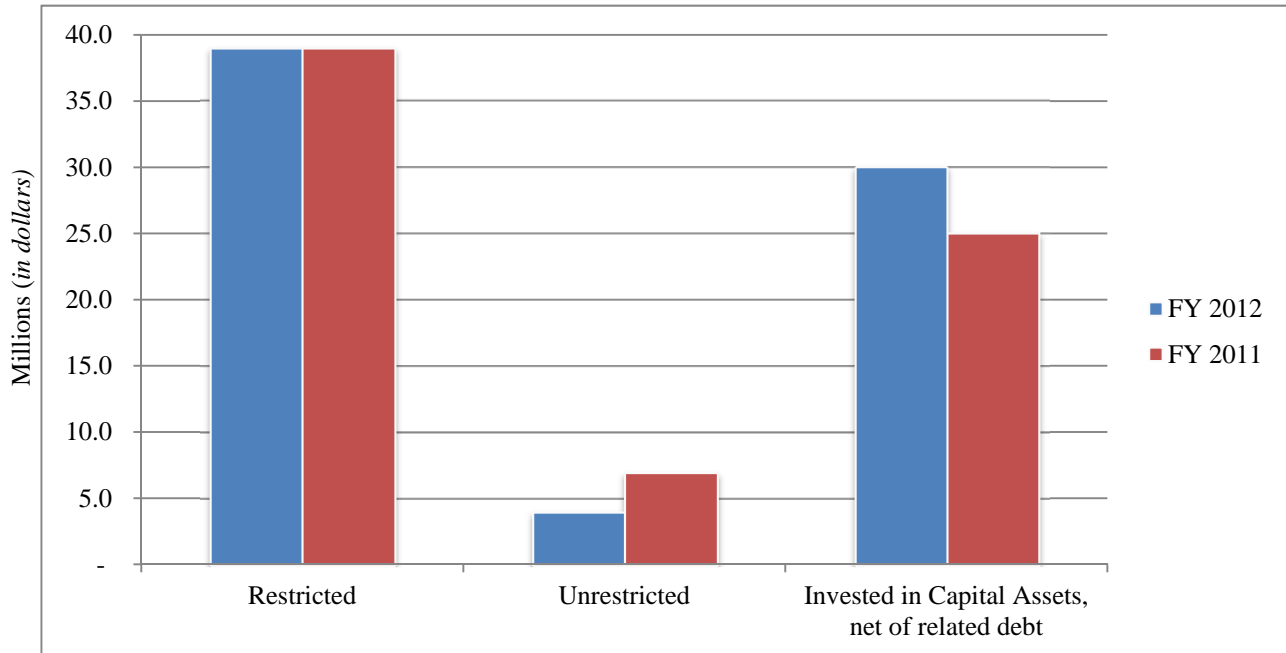
Net assets represent the difference between the University's assets and liabilities. Total net assets at September 30, 2012 and 2011 were \$75.3 million and \$72.1 million, respectively. The University's net assets at September 30, 2012 and 2011, are summarized as follows:

	Fiscal Year 2012	Fiscal Year 2011
Net assets:		
Restricted	\$ 39,347,493	\$ 39,030,177
Unrestricted	5,301,840	7,565,328
Invested in capital assets, net of related debt	30,631,764	25,523,058
Total net assets	\$ 75,281,097	\$ 72,118,563

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Net Assets (continued)



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

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

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Net Assets (continued)

Although unrestricted net assets are not subject to externally imposed stipulations, most of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, as well as capital projects. This includes funds that have been designated by the governing board for specific purposes as well as amounts that have been contractually committed for goods and services which have not yet been received as of September 30, 2012. Also, included are normal working capital balances maintained for departmental and auxiliary enterprise activities.

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

Statement of Revenues, Expenses and Changes in Net Assets

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

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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

A summarized comparison of the University's revenues, expenses and changes in net assets for the years ended September 30, 2012 and 2011, follows:

	Fiscal Year 2012	Fiscal Year 2011	\$ Change
Operating revenues:			
Tuition and fees, net	\$ 14,768,093	\$ 14,467,820	\$ 300,273
Grants and contracts	22,679,345	20,823,622	1,855,723
Auxiliary enterprises	3,554,697	3,826,628	(271,931)
Other operating revenues	353,706	441,881	(88,175)
Total operating revenues	41,355,841	39,559,951	1,795,890
Operating expenses	77,052,577	79,788,587	(2,736,010)
Operating loss	(35,696,736)	(40,228,636)	4,531,900
Nonoperating revenues (expenses):			
Local government appropriation	25,686,834	29,420,088	(3,733,254)
Federal Pell Grant Program	5,578,350	5,916,082	(337,732)
Other non-operating income	5,401,977	4,208,320	1,193,657
Interest on indebtedness	(2,658,637)	(2,547,324)	(111,313)
Net non-operating revenues	34,008,524	36,997,166	(2,988,642)
Loss before capital appropriations	(1,688,212)	(3,231,470)	1,543,258
Capital appropriations	3,992,205	3,992,205	-
Increase in net assets	2,303,993	760,735	1,543,258
Net assets:			
Net assets at beginning of year, <i>as restated in 2012</i>	72,977,104	71,357,828	1,619,276
Net assets at end of year	\$ 75,281,097	\$ 72,118,563	\$ 3,162,534

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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

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 2012 appropriations decreased by 13% from the previous fiscal year, making fiscal year 2012 one of the most challenging for the University in over 20 years. The University continues to aggressively seek funding from all possible sources consistent with its mission. The University prudently manages the financial resources from these efforts to fund its operating activities.

Tuition and local government appropriations are the primary source of funding for the University's academic programs. There is a direct relationship between the growth or reduction in local government support and the University's ability to restrain tuition and fee increases. The University strives to provide students with access to a quality education at an affordable cost. The fiscal year 2012 increase in net tuition and fees of \$0.3 million is mainly due to an increase in tuition rates for the fall semester of 2012. Local government appropriations decreased by \$3.7 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 \$1.9 million increase in grants and contracts is primarily due to the receipt of American Recovery and Reinvestment Act (ARRA) funds awarded in fiscal year 2012.

Auxiliary enterprises include the bookstores, residence halls, campus housing, Sports and Fitness Center and the Reichhold Center. There was a decrease of \$0.3 million in this area, which was comprised of a decrease of \$0.1 million from the bookstores, and a decrease of \$0.2 million from the Reichhold Center decrease in the number of shows.

Other non-operating revenues consist of investment income and gifts which continue to increase due to improving conditions in the marketable securities area.

Other revenues consist of capital appropriations received from the Government to meet outstanding capital debt obligations.

For fiscal year 2012, operating expenses totaled \$77.1 million including compensation and benefits of \$40.0 million, supplies and other expenditures of \$20.4 million, depreciation expense of \$2.8 million, scholarships of \$9.3 million, and utilities of \$4.6 million.

University of the Virgin Islands

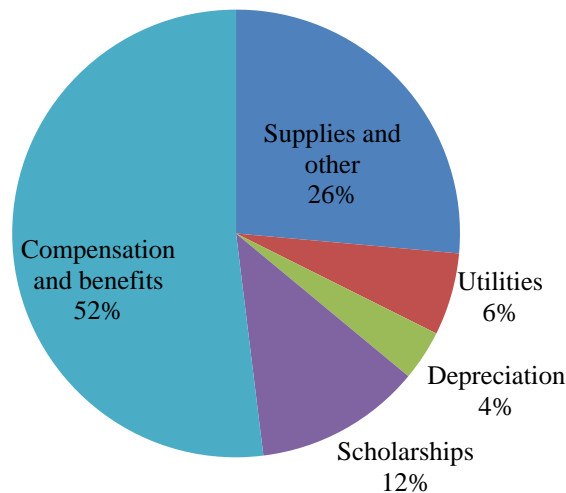
Management's Discussion and Analysis (continued)

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

A comparative summary of the University's operating expenses for the years ended September 30, 2012 and 2011, is as follows:

	Fiscal Year 2012	Fiscal Year 2011
Compensation and benefits	\$ 40,025,122	\$ 39,211,180
Supplies and other	20,363,035	22,543,663
Depreciation	2,803,957	2,524,634
Scholarships	9,279,142	10,669,264
Utilities	4,581,321	4,839,846
Total operating expenses	\$ 77,052,577	\$ 79,788,587

Comparative Summary of Operating Expenses



University of the Virgin Islands

Management's Discussion and Analysis (continued)

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

Compensation and benefits is the largest category of expenses. The University is committed to recruiting and retaining outstanding faculty and staff and the compensation package is one way to successfully compete with peer institutions and nonacademic employers. Effective July 2011, employees' salaries in excess of \$26,000 were reduced by 8% in accordance with local law. The increase in compensation and benefits was due to the pension benefit paid to TIAA CREFF employees.

Supplies and other expenses decreased due to the reduction of the local government allotment. All areas in the University were affected by this reduction.

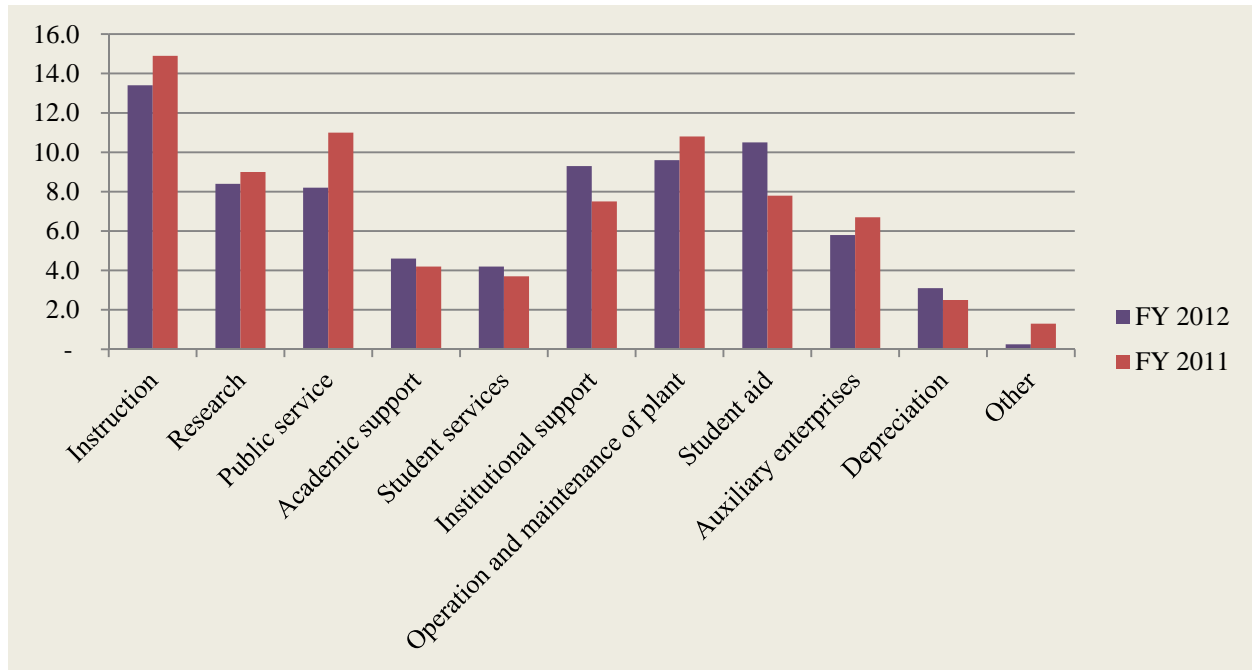
A comparative summary of the University's total operating expenses by functional classification for the years ended September 30, 2012 and 2011, is as follows:

Function:	Fiscal Year	Fiscal Year
	2012	2011
Instruction	\$ 13,417,658	\$ 14,916,934
Research	8,471,990	9,042,371
Public service	8,234,700	11,026,048
Academic support	4,625,738	4,269,912
Student services	4,231,791	3,721,801
Institutional support	10,311,860	7,503,744
Operation and maintenance of plant	9,617,534	10,830,323
Student aid	9,279,142	7,871,268
Auxiliary enterprises	5,803,683	6,735,046
Depreciation	2,803,957	2,524,634
Other	254,524	1,346,506
Total expenses by function	\$ 77,052,577	\$ 79,788,587

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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



Expenditures in most of the functional areas went down, when compared to 2011, due to the reduction in the Government allotment of approximately \$3.7 million, which was spread throughout the program codes. Student aid increased because the University issued grants to students to help them remain in college. In addition, the Foundation issued grants to fund new programs. The depreciation expenditure increased due to the capital assets additions during 2012. The increase in the other expenditures functional classification is related to the expenses in the foundation funds.

Factors Impacting Future Periods

During fiscal year 2012, the University felt the impact of the negative global economy. The University President and his Cabinet continue to explore new ways to address the loss of revenues whether from the decrease in allotments from the local government or the decline in enrollment.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Factors Impacting Future Periods (continued)

As in the past, the University forged 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 2011-2012 period include:

- The Golden Jubilee 50th Anniversary celebration in January 2012 with receptions on three islands. Other events included UVI Research Day, Reunion Choir Concert, Charter Day Celebration, Ideas and Issues forums, and Galas to close out the year.
- The Board of Trustees approval of updated financial policies, including an investment policy.
- The completion of the VISION 2012 Strategic Plan.
- The Board of Trustees' approval of the new Strategic Plan, Pathways to Greatness.
- The commencement and completion of a 100-bed Residence Hall on the St. Thomas Campus.
- The Board of Trustees' approval of Capital Campaign for which the Quiet Phase was also launched during Fiscal Year 2012.
- The submission of the Periodic Review Report as required by the Middle States Commission.

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, 2012

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,828,440	\$ 116,577
Restricted cash and cash equivalents	984,126	-
Restricted cash held by paying agent	647,674	-
Accounts receivable, net of allowance for doubtful accounts of \$1,236,786	9,582,812	-
Inventories	791,127	-
Prepaid expenses and other current assets	629,409	38,205
Total current assets	<u>21,463,588</u>	<u>154,782</u>
Noncurrent assets:		
Restricted cash and cash equivalents	12,749,725	-
Restricted deposits with trustee	4,388,254	-
Students loans receivable, net of allowance for doubtful accounts of \$126,745	466,657	-
Investments at fair value	-	10,005,598
Restricted investments at fair value	28,164,351	-
Capital assets, net	68,453,407	-
Other assets	1,111,033	-
Total noncurrent assets	<u>115,333,427</u>	<u>10,005,598</u>
Total assets	<u>136,797,015</u>	<u>10,160,380</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	3,758,401	-
Due to the University	-	100,000
Deferred revenue	3,584,861	-
Current portion of long-term liabilities	3,210,275	-
Total current liabilities	<u>10,553,537</u>	<u>100,000</u>
Noncurrent liabilities:		
Long-term debt	47,194,167	-
Accrued vacation	3,303,564	-
Other long-term liabilities	464,650	-
Total noncurrent liabilities	<u>50,962,381</u>	<u>-</u>
Total liabilities	<u>61,515,918</u>	<u>100,000</u>

(Continued)

University of the Virgin Islands

Statement of Net Assets (continued)

September 30, 2012

	University	Component Unit
Net assets		
Invested in capital assets, net of related debt	30,631,764	–
Restricted nonexpendable	9,457,907	–
Restricted expendable:		
Grants	21,666,544	–
Scholarships	3,262,168	–
Loans	1,081,201	–
Debt service	2,899,492	–
Other	980,181	–
Unrestricted	5,301,840	10,060,380
Total net assets	<u>\$ 75,281,097</u>	<u>\$ 10,060,380</u>

See accompanying notes.

University of the Virgin Islands

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended September 30, 2012

	University	Component Unit
Revenues		
Operating revenues:		
Tuition and fees (net of scholarship allowance of \$235,796)	\$ 14,768,093	\$ —
Federal grants and contracts	20,222,723	—
State grant and contracts	2,456,622	—
Auxiliary enterprises	3,554,697	—
Other	353,706	—
In-kind contribution	—	208,847
Total operating revenues	41,355,841	208,847
Expenses		
Salaries:		
Faculty	9,299,975	—
Exempt staff	11,539,336	—
Nonexempt wages	8,025,156	—
Benefits	11,160,655	—
Scholarships	9,279,142	—
In-kind contribution	—	208,847
Contributions to the University	—	500,000
Utilities	4,581,321	—
Supplies and other services	19,072,204	30,081
Depreciation	2,803,957	—
Other expenses	1,290,831	—
Total operating expenses	77,052,577	738,928
Operating loss	(35,696,736)	(530,081)

(Continued)

University of the Virgin Islands

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

Year Ended September 30, 2012

	University	Component Unit
Nonoperating revenues (expenses):		
Local government appropriation	25,686,834	–
Federal Pell Grant Program	5,578,350	–
Gifts	1,333,884	–
Net investment income	4,068,093	1,647,289
Interest on indebtedness	(2,658,637)	–
Total nonoperating revenues, net	34,008,524	1,647,289
(Decrease) increase in net assets before capital appropriations	(1,688,212)	1,117,208
Capital appropriations	3,992,205	–
Increase in net assets	2,303,993	1,117,208
Net assets at beginning of year, <i>as restated (Unaudited)</i> (<i>see Note 2</i>)	72,977,104	8,943,172
Net assets at end of the year	\$ 75,281,097	\$ 10,060,380

See accompanying notes.

University of the Virgin Islands

Statement of Cash Flows

Year Ended September 30, 2012

	University
Cash flows from operating activities	
Tuition and fees	\$ 14,555,267
Grants and contracts	21,258,386
Auxiliary enterprises and other	3,969,497
Payments to suppliers and vendors	(22,634,440)
Payments to employees	(29,106,727)
Payments for utilities	(4,581,321)
Payments for benefits	(13,080,583)
Payments for scholarships	(9,279,142)
Net cash used in operating activities	(38,899,063)
 Cash flows from noncapital financing activities	
Local government appropriations	25,686,834
Federal Pell Grant Program	5,578,350
Endowment gifts	1,000,000
Gifts and grants for other than capital purposes	333,884
Net cash provided by noncapital financing activities	32,599,068
 Cash flows from investing activities	
Proceeds from sales and maturities of investments	5,245,100
Investment income	4,068,093
Purchases of investments	(3,386,338)
Net cash provided by investing activities	5,926,855
 Cash flows from capital and related financing activities	
Capital appropriations	3,992,205
Net purchases of capital assets	(15,737,319)
Proceeds from capital debt	11,093,326
Principal paid on capital debt	(1,488,052)
Interest paid on capital debt	(2,494,468)
Increase in deposits held with bond trustees	(1,611,214)
Net cash used in capital and related financing activities	(6,245,522)
Net change in cash and cash equivalents	(6,618,662)
 Cash and cash equivalents at beginning of year	29,828,627
Cash and cash equivalents at end of year	\$ 23,209,965

(Continued)

University of the Virgin Islands
Statement of Cash Flows (continued)
Year Ended September 30, 2012

	University
Reconciliation of net operating loss to net cash used in operating activities	
Operating loss	\$ (35,696,736)
Adjustments to reconcile operations loss to net cash used in operating activities:	
Depreciation	2,803,957
Changes in assets and liabilities, net:	
Grants and contracts receivables	(1,312,261)
Student receivables	(212,826)
Other accounts receivables	61,094
Inventories	35,330
Prepaid expenses and other current assets	303,131
Accounts payable and accrued liabilities	(4,880,752)
Net cash used in operating activities	\$ (38,899,063)

See accompanying notes.

University of the Virgin Islands

Notes to Financial Statements

September 30, 2012

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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.

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:

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Component Units (continued)

Foundation for the University of the Virgin Islands

The Foundation for the University of the Virgin Islands (the Foundation) is a not-for-profit corporation organized for charitable and educational purposes. The Foundation operates for the sole purpose of assisting and supporting the University of the Virgin Islands in accomplishing its charitable and educational mission. Because the Foundation was established for the purpose of supporting the core mission and purposes of the University, engages collaboratively with the University in its fundraising efforts, provides services entirely to the University and through the nature and significance of the relationship between the Foundation and 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. The following is presented as a discrete component unit:

Foundation for the Reichhold Center for the Arts

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

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Component Units (continued)

Foundation for the Reichhold Center for the Arts (continued)

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:

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.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Measurement Focus and Basis of Accounting (continued)

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.

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.

Cash and Cash Equivalents

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

Investments

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

Investments in alternative strategies are reported at fair value, whose fair values have been estimated by management in the absence of readily determinable fair values. The estimated fair value of alternative strategies is based on valuations provided by the external investment managers as of September 30.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Students and Other Receivables

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

Inventories

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

Deferred Debt Issuance Costs

Costs related to the issuance of debt are deferred. Those costs are amortized over the term of the related debt, on a straight-line basis, and are included in other assets.

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, 2012. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets, generally 25 to 50 years for buildings and infrastructure, 5 to 20 years for equipment and library materials, including computer and computer software, and 7 to 30 years for land improvements. Renovations to buildings and other capital assets that significantly increase the value or extend the useful life of the asset are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense is incurred.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Capital Assets (continued)

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

Deferred 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, 2012, approximately \$3,584,861 of tuition and fees collected that relate to the remainder of the fall semester are deferred.

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.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Net Assets (continued)

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.

Classification of Revenues and Expenses

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

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

Non-operating revenues include activities that have the characteristics of non-exchange transactions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 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, Federal Pell grants, gifts and investment income. Gifts to the endowment fund are classified as other non-operating 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 non-operating.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Gifts and Pledges

Pledges of financial support from organizations and individuals representing an unconditional promise to give are recognized in the financial statements once all eligibility requirements, including time requirements, have been met. In the absence of such promise, revenue is recognized when the gift is received. Endowment pledges generally do not meet eligibility requirements, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions* (GASB No. 33), and are not recorded as assets until the related gift has been received.

Grants and Contracts

The University has been awarded grants and contracts for which the funds have not been received or expenses made for the purpose specified in the award. These awards have not been reflected in the 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.

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.

2. Prior Period Adjustment (Unaudited)

During 2012, the University noted that it had inappropriately understated its capital assets by \$1,070,720 in its 2011 financial statements. The University charged to expense \$1,070,720 that should have been capitalized as construction in progress in the 2011 financial statements.

Also, during 2012, the University identified an overstatement of capital assets of \$212,179 in its 2011 financial statements. The University capitalized \$212,179 in its 2011 financial statements that should have been recorded as repair and maintenance expense.

University of the Virgin Islands

Notes to Financial Statements (continued)

2. Prior Period Adjustment (Unaudited) (continued)

The effects of these two errors is the net understatement of the University's 2011 capital assets and net assets balance of \$858,541.

The University's net assets have been restated as follows:

Beginning net assets, as previously reported	\$ 72,118,563
Prior period adjustment (Unaudited)	<u>858,541</u>
Beginning net assets, <i>as restated</i> (Unaudited)	<u>\$ 72,977,104</u>

3. Cash and Cash Equivalents

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

At September 30, 2012, 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, 2012, cash and cash equivalents amounted to approximately \$8.8 million and restricted cash equivalents amounted to approximately \$14.4 million.

University of the Virgin Islands

Notes to Financial Statements (continued)

4. Accounts Receivable

The University's accounts receivable as of September 30, 2012, are composed of the following:

U.S. Virgin Islands Government	\$ 969,517
U.S. Federal Government	3,275,740
Student	2,368,137
Due from related party (Tech Park), <i>see Note 13</i>	975,473
Other	<u>3,230,731</u>
	10,819,598
Less allowance for doubtful accounts	<u>(1,236,786)</u>
Accounts receivable, net	<u><u>\$ 9,582,812</u></u>

5. Investments

The Board of Trustees (the Board), as the governing Board, is responsible for the management of the University's investments and establishes investment policy, which is carried out by the Vice President for Administration and Finance. In February 2012, the University finalized a formal investment policy approved by the Board of Trustees, which contains a requisite 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, certificates of deposit, equities, mutual funds, and alternative strategies. The Land Grant Endowment fund and the Quasi-endowment fund are invested in U.S. Treasury bills and notes.

University of the Virgin Islands

Notes to Financial Statements (continued)

5. Investments (continued)

The University's investments as of September 30, 2012, consist of the following:

	<u>Fair Value</u>
U.S. Treasury bills and notes	\$ 1,393,771
Certificates of deposits/CD's	196,553
Corporate bonds	4,856,910
Equities	1,743,247
Mutual funds	404,532
Alternative strategies	19,569,338
	<u>\$ 28,164,351</u>

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

The Reichhold Foundation's investments as of September 30, 2012, consist of:

	<u>Fair Value</u>
Corporate bonds	\$ 593,686
Equities	3,566,862
Mutual funds	5,845,050
	<u>\$ 10,005,598</u>

Risk

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

University of the Virgin Islands

Notes to Financial Statements (continued)

5. Investments (continued)

Interest-Rate Risk

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

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

Years until maturity	<1	1-2	3-5	6-10	11-15	16-20	21+	Total
U.S. Treasury bills and notes	\$ 166	\$ -	\$ -	\$ -	\$ 252,443	\$ 779,090	\$ 362,072	\$1,393,771
CDs	97,969	98,584	-	-	-	-	-	196,553
Corporate bonds	-	202,265	58,236	956,592	312,182	248,436	3,079,199	4,856,910
Total	<u>\$ 98,135</u>	<u>\$ 300,849</u>	<u>\$ 58,236</u>	<u>\$ 956,592</u>	<u>\$ 564,625</u>	<u>\$1,027,526</u>	<u>\$ 3,441,271</u>	<u>\$6,447,234</u>

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

Years until maturity	1-2	3-5	6-10	11-15	16-20	21+	Total
Corporate bonds	\$ 208,750	\$ 353,271	\$ -	\$ -	\$ 747	\$ 30,918	\$ 593,686
Total	<u>\$ 208,750</u>	<u>\$ 353,271</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 747</u>	<u>\$ 30,918</u>	<u>\$ 593,686</u>

Credit Risk

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

University of the Virgin Islands

Notes to Financial Statements (continued)

5. Investments (continued)

Credit Risk (continued)

As of September 30, 2012, the University's credit quality distribution for securities was as follows:

	Carrying Value	Standard & Poor's Ratings
Corporate bonds	\$ 604,211	AAA
Corporate bonds	223,598	AA+
Corporate bonds	568,239	AA
Corporate bonds	228,782	AA-
Corporate bonds	380,220	A+
Corporate bonds	1,616,427	A
Corporate bonds	225,032	A-
Corporate bonds	16,181	BBB
Corporate bonds	994,220	Not rated
Total corporate bonds	\$ 4,856,910	

As of September 30, 2012, the Reichhold Foundation's credit quality distribution for securities was as follows:

	Carrying Value	Standard & Poor's Ratings
Corporate bonds	\$ 110,390	AA
Corporate bonds	169,867	A
Corporate bonds	53,457	AA-
Corporate bonds	101,398	A-
Corporate bonds	102,875	BBB-
Corporate bonds	23,000	D
Corporate bonds	32,699	Not rated
Total corporate bonds	\$ 593,686	

University of the Virgin Islands

Notes to Financial Statements (continued)

5. Investments (continued)

Custodial Credit Risk

Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the University and the Reichhold Foundation may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At September 30, 2012, the custody of these investments is held by the trust department of a commercial bank in the name of the University and the Reichhold Foundation, and the portfolio is managed by a brokerage firm.

6. Student Loans Receivable

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

University of the Virgin Islands

Notes to Financial Statements (continued)

7. Capital Assets

Changes in capital assets for the year ended September 30, 2012, are as follows:

	Beginning Balance	Prior Period Adjustment	Additions	Reductions	Ending Balance
		<i>(Unaudited)</i>			
		<i>See Note 2</i>			
Capital assets not being depreciated:					
Land	\$ 5,438,112	\$ –	\$ –	\$ –	\$ 5,438,112
Construction-in-progress	–	1,070,720	–	(1,070,720)	–
Total capital assets not being depreciated	<u>5,438,112</u>	<u>1,070,720</u>	<u>–</u>	<u>(1,070,720)</u>	<u>5,438,112</u>
Capital assets being depreciated:					
Land improvements	2,041,476	–	688,201	(2,100)	2,727,577
Buildings, fixed equipment, improvements and infrastructure	72,953,413	(212,179)	14,154,913	(9,300)	86,886,847
Equipment and library materials	22,016,403	–	1,988,939	(518,439)	23,486,903
Total capital assets being depreciated	<u>97,011,292</u>	<u>(212,179)</u>	<u>16,832,053</u>	<u>(529,839)</u>	<u>113,101,327</u>
Less accumulated depreciation:					
Land improvements	(1,833,055)	–	(31,238)	2,100	(1,862,193)
Buildings, fixed equipment, improvements and infrastructure	(29,154,063)	–	(1,679,090)	3,819	(30,829,334)
Equipment and library materials	(16,795,483)	–	(1,093,629)	494,607	(17,394,505)
Total accumulated depreciation	<u>(47,782,601)</u>	<u>–</u>	<u>(2,803,957)</u>	<u>500,526</u>	<u>(50,086,032)</u>
Total capital assets being depreciated, net	<u>49,228,691</u>	<u>(212,179)</u>	<u>14,028,096</u>	<u>(29,313)</u>	<u>63,015,295</u>
Total capital assets, net	<u>\$ 54,666,803</u>	<u>\$ 858,541</u>	<u>\$ 14,028,096</u>	<u>\$ (1,100,033)</u>	<u>\$ 68,453,407</u>

University of the Virgin Islands

Notes to Financial Statements (continued)

8. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended September 30, 2012, are as follows:

	Beginning Balance	Additions	Reductions	Amortization	Ending Balance	Less amounts due within one year	Noncurrent liabilities
Notes payable - HBCU	\$ 43,759,645	\$ 11,093,326	\$ 1,365,700	\$ -	\$ 53,487,271	\$ 1,594,106	\$ 51,893,165
Notes payable - other	1,617,214	-	122,352	-	1,494,862	129,085	1,365,777
Loss on refunding	(6,315,117)	-	-	250,342	(6,064,775)	-	(6,064,775)
Total notes payable	39,061,742	11,093,326	1,488,052	250,342	48,917,358	1,723,191	47,194,167
Accrued vacation	4,560,875	1,306,809	1,376,286	-	4,491,398	1,187,834	3,303,564
Other long-term liabilities	937,300	26,600	200,000	-	763,900	299,250	464,650
Total	\$ 44,559,917	\$ 12,426,735	\$ 3,064,338	\$ 250,342	\$ 54,172,656	\$ 3,210,275	\$ 50,962,381

Notes payable are further disclosed below in Note 9.

9. Notes 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.

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.

University of the Virgin Islands

Notes to Financial Statements (continued)

9. Notes Payable (continued)

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, 2012 for the Series 2011-2 Bonds and 2011-3 Bonds amounted to \$42,180,041 and \$11,307,232, 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 3.48% and interest on the 2011-3 Bonds is calculated from the date of each advance using the long-term U.S. Treasury Rate on that day plus 22.5 basis points, which was 2.42% on September 30, 2012.

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, 2012, the amount outstanding was \$224,116.

University of the Virgin Islands

Notes to Financial Statements (continued)

9. Notes Payable (continued)

During 1994, the construction of certain academic facilities and a water distribution system was completed by the University. The amounts originally advanced by the United States Department of Education were converted to a note payable at that time. As of September 30, 2012, the amount outstanding was \$1,270,746. 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, 2012:			
2013	\$ 1,723,191	\$ 1,809,193	\$ 3,532,384
2014	1,776,305	1,756,080	3,532,385
2015	1,829,708	1,700,677	3,530,385
2016	1,907,349	1,625,036	3,532,385
2017	1,930,421	1,563,339	3,493,760
2018-2022	10,590,684	6,781,551	17,372,235
2023-2027	11,989,047	4,856,206	16,845,253
2028-2032	13,888,502	2,730,894	16,619,396
2033-2037	7,731,341	602,893	8,334,234
2038-2041	1,615,585	70,890	1,686,475
Total	\$ 54,982,133	\$ 23,496,759	\$ 78,478,892

10. Leases

The University has several non-cancelable 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.

University of the Virgin Islands

Notes to Financial Statements (continued)

10. Leases (continued)

Future minimum lease payments under non-cancelable operating leases as of September 30, 2012, are as follows:

Year ending September 30,	
2013	\$ 170,348
2014	143,793
2015	137,468
2016	137,468
2017 and thereafter	18,750
Total minimum lease payments	\$ 607,827

Total rent expense related to these agreements amounted to approximately \$180,600 for the year ended September 30, 2012.

11. 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, 2012, the University had accrued \$4,491,398 for vacation.

University of the Virgin Islands

Notes to Financial Statements (continued)

12. 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 235 as of September 30, 2012.

(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, 2012 are 249 (total GERS participants from all employers approximate 15,000).

Total pension expenditures for the year ended September 30, 2012, are summarized below:

TIAA-CREF	\$ 4,189,182
GERS	1,378,668
	<u>\$ 5,567,850</u>

University of the Virgin Islands

Notes to Financial Statements (continued)

13. Functional Information

The University's operating expenses by functional classification as of September 30, 2012, were as follows:

Functional classification	Salaries and benefits	Supplies and other services	Scholarships and other services	Utilities	Depreciation	Other expenditures	Total
Instruction	\$ 11,864,177	\$ 1,128,122	\$ 229,392	\$ 41,218	\$ -	\$ 154,749	\$ 13,417,658
Research	3,799,655	4,056,816	224,393	160,791	-	230,335	8,471,990
Public service	4,402,765	2,393,872	1,218,622	49,955	-	169,486	8,234,700
Academic support	3,521,210	860,172	154,152	1,070	-	89,134	4,625,738
Student Services	2,578,559	1,158,020	-	485,572	-	9,640	4,231,791
Institutional support	8,714,706	1,278,866	5,064	17,320	-	295,904	10,311,860
Operation and maintenance of plant	3,943,896	2,329,027	-	3,261,922	-	82,689	9,617,534
Student aid	150,268	1,886,316	7,238,617	-	-	3,941	9,279,142
Auxiliary enterprises	1,049,886	3,980,993	112,902	563,473	-	96,429	5,803,683
Depreciation	-	-	-	-	2,803,957	-	2,803,957
Other	-	-	96,000	-	-	158,524	254,524
Total	<u>\$ 40,025,122</u>	<u>\$ 19,072,204</u>	<u>\$ 9,279,142</u>	<u>\$ 4,581,321</u>	<u>\$ 2,803,957</u>	<u>\$ 1,290,831</u>	<u>\$ 77,052,577</u>

14. 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.

15. Contingencies

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

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

University of the Virgin Islands

Notes to Financial Statements (continued)

15. Contingencies (continued)

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

16. Significant New Accounting Pronouncements

In June 2011, the GASB issued Statement No. 64, *Derivative instruments: Application of Hedge Accounting Termination Provisions-an amendment of GASB Statement No. 53*. This Statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The requirements of this Statement set forth the criteria that establish when the effective hedging relationship continues and when the hedge accounting should continue to be applied. This Statement is effective for periods beginning after June 15, 2011. 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
60	Accounting and Financial Reporting for Service Concession Arrangements	2013
61	The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 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
65	Items Previously Reported as Assets and Liabilities	2013
66	Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62	2013
67	Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25	2014
68	Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27	2015
69	Government Combinations and Disposals of Government Operations	2014
70	Accounting and Financial Reporting for Non-exchange Financial Guarantees	2014

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, 2012, and have issued our report thereon dated November 27, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 12-01 and 12-02 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*.

The University's response to the findings identified in our audit is 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 University's Board of Trustees, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

November 27, 2013

Single Audit Report

Report of Independent Auditors 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 Directors
University of the Virgin Islands

Compliance

We have audited the University of the Virgin Islands (the University)'s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *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, 2012. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University's management. Our responsibility is to express an opinion on the University's compliance based on our audit.

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

As described in Finding 12-03 in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding subrecipient monitoring that are applicable to its College Access Challenge Grant Program (CFDA No. 84.378). Compliance with such requirements is necessary, in our opinion, for the University to comply with requirements applicable to this program.

In our opinion, because of the effects of the noncompliance described in the preceding paragraph, the University did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on its Education College Access Grant program (CFDA No. 84.378). The results of our auditing procedures also disclosed other instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-03 as it relates to the Research and Development Cluster and 12-04 as it relates to the Research and Development Cluster and CFDA 84.031 Higher Education Institutional Aid (procurement, suspension and debarment). Also, in our opinion, the University complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs for the year ended September 30, 2012.

Internal control over compliance

The management of the University is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University's internal control over compliance with 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 deficiencies, 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 and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 12-03 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as finding 12-04 to be a significant deficiency.

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, Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

December 12, 2013

University of the Virgin Islands
Schedule of Expenditures of Federal Awards

Year Ended September 30, 2012

Federal Grantor/Program Title	CFDA Number	Direct Award	Research and Development Cluster	Student Financial Assistance Cluster	College Access Challenge Grant	Higher Education Institutional Aid	State Fiscal Stabilization Fund	Other Programs	Total Federal Expenditures
US Department of Health Human Services									
¹ AIDS Education and Training Centers	93.145	No	\$ (30,855)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (30,855)
² Environmental Public Health and Emergency Response	93.070	No	40,975	-	-	-	-	-	40,975
Minority Health and Health Disparities Research	93.307	Yes	1,567,626	-	-	-	-	-	1,567,626
³ Child Care and Development Block Grant	93.575	No	-	-	-	-	-	(1,040)	(1,040)
Head Start	93.600	Yes	-	-	-	-	-	173,479	173,479
University Centers for Excellence in Developmental Disabilities Education, Research and Service (UAP)	93.632	Yes	-	-	-	-	-	530,567	530,567
ARRA-TRANS-NIH Recovery Act Research Support	ARRA-93.701	Yes	253,163	-	-	-	-	-	253,163
Health Careers Opportunity Program	93.822	Yes	300	-	-	-	-	-	300
Biomedical Research and Research Training	93.859	Yes	567,073	-	-	-	-	-	567,073
⁴ Family and Community Violence Prevention Program	93.910	No	-	-	-	-	-	1,669	1,669
Scholarships for Health Professions Students from Disadvantaged Backgrounds	93.925	Yes	-	12,959	-	-	-	-	12,959
<i>Total US Department of Health and Human Services</i>			2,398,282	12,959	-	-	-	704,675	3,115,916
US Department of Agriculture									
Payments to Agricultural Experimental Stations under the HATCH Act	10.203	Yes	1,007,372	-	-	-	-	-	1,007,372
⁵ Sustainable Agricultural Research and Education	10.215	No	(4,162)	-	-	-	-	-	(4,162)
⁶ Integrated Programs	10.303	No	41,778	-	-	-	-	-	41,778
⁷ Homeland Security-Agricultural	10.304	No	7,143	-	-	-	-	-	7,143
Resident Instruction Grants for Insular Area Activities	10.308	Yes	187,941	-	-	-	-	-	187,941
⁸ Resident Instruction Grants for Insular Area Activities	10.308	No	134,848	-	-	-	-	-	134,848
<i>Total Resident Instruction Grants for Insular Area Activities</i>			322,789	-	-	-	-	-	322,789
⁹ Specialty Crop Research Initiative	10.309	No	1,589	-	-	-	-	-	1,589
¹⁰ Sun Grant Program (Cooperative Agreements)	10.320	No	10,257	-	-	-	-	-	10,257
Grants for Agricultural Research, Special Research Grants	10.200	Yes	39,957	-	-	-	-	-	39,957
¹¹ Grants for Agricultural Research, Special Research Grants	10.200	No	(2,756)	-	-	-	-	-	(2,756)
<i>Total Grants for Agricultural Research, Special Research Grants</i>			37,201	-	-	-	-	-	37,201
¹² Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	No	28,903	-	-	-	-	-	28,903
Cooperative Extension Service	10.500	Yes	976,912	-	-	-	-	-	976,912
Cooperative Extension Service	10.500	Yes	-	-	-	-	-	236,148	236,148
¹³ Cooperative Extension Service	10.500	No	8,824	-	-	-	-	-	8,824
<i>Total Cooperative Extension Service</i>			985,736	-	-	-	-	236,148	1,221,884
Forest Stewardship Program	10.678	Yes	1,342	-	-	-	-	-	1,342
Beginning Farmer and Rancher Development Program	10.311	Yes	32,476	-	-	-	-	-	32,476
<i>Total US Department of Agriculture</i>			2,472,424	-	-	-	-	236,148	2,708,572
US Department of Education									
Federal Supplemental Educational Opportunity Grants	84.007	Yes	-	65,636	-	-	-	-	65,636
Federal Work-Study Program	84.033	Yes	-	88,219	-	-	-	-	88,219
Federal Perkins Loan Program	84.038	Yes	-	7,000	-	-	-	-	7,000
TRIO_Upward Bound	84.047	Yes	-	-	-	-	-	207,544	207,544

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2012

Federal Grantor/Program Title	CFDA Number	Direct Award	Research and Development Cluster	Student Financial Assistance Cluster	College Access Challenge Grant	Higher Education Institutional Aid	State Fiscal Stabilization Fund	Other Programs	Total Federal Expenditures
Federal Pell Grant Program	84.063	Yes	–	5,578,350	–	–	–	–	5,578,350
Assistive Technology	84.224	Yes	–	–	–	–	–	163,856	163,856
Assistive Technology	84.224	Yes	–	–	–	–	–	400	400
Higher Education Institutional Aid	84.031	Yes	–	–	–	2,970,157	–	–	2,970,157
College Access Challenge Grant Program	84.378	Yes	–	–	1,431,664	–	–	–	1,431,664
¹⁴ ARRA-State Fiscal Stabilization Fund-Government Services Recovery Act	ARRA-84.397	No	–	–	–	–	2,338,934	–	2,338,934
¹⁵ State Grants for Innovative Programs	84.298	No	–	–	–	–	–	90	90
Federal Direct Student Loans	84.268	Yes	–	5,276,449	–	–	–	–	5,276,449
¹⁶ National Writing Project	84.928	No	–	–	–	–	–	52,757	52,757
<i>Total US Department of Education</i>			–	11,015,654	1,431,664	2,970,157	2,338,934	424,647	18,181,056
US Department of Housing and Urban Development									
¹⁷ Community Development Black Grants/Special Purpose Grants/Insular Areas	14.225	No	–	–	–	–	–	9,923	9,923
Historically Black Colleges and Universities Program	14.520	Yes	–	–	–	–	–	466,135	466,135
<i>Total US Department of Housing and Urban Development</i>			–	–	–	–	–	476,058	476,058
US Department of Labor									
Consultation Agreements	17.504	Yes	–	–	–	–	–	260,711	260,711
¹⁸ Job Training Partnership Act	17.250	No	–	–	–	–	–	(2,555)	(2,555)
<i>Total US Department of Labor</i>			–	–	–	–	–	258,156	258,156
US Department of the Interior									
¹⁹ Economic, Social, and Political Development of the Territories	15.875	No	–	–	–	–	–	(585)	(585)
Economic, Social, and Political Development of the Territories	15.875	Yes	–	–	–	–	–	79,494	79,494
Native American Graves Protection and Repatriation Act	15.922	Yes	4,860	–	–	–	–	–	4,860
Assistance to State Water Resources Research Institutes	15.805	Yes	72,133	–	–	–	–	–	72,133
US Geological Survey_Research and Data Collection	15.808	Yes	(13,453)	–	–	–	–	–	(13,453)
<i>Total US Department of the Interior</i>			63,540	–	–	–	–	78,909	142,449
Institute of Museum and Library Services									
Promotion of the Humanities-Division of Preservation and Access	45.149	Yes	–	–	–	–	–	978	978
<i>Total Institute of Museum and Library Services</i>			–	–	–	–	–	978	978
National Science Foundation									
Geosciences	47.050	Yes	3,230	–	–	–	–	–	3,230
²⁰ Geosciences	47.050	No	23,650	–	–	–	–	–	23,650
<i>Total Geosciences</i>			26,880	–	–	–	–	–	26,880
²¹ Computer and Information Science and Engineering	47.070	No	24,265	–	–	–	–	–	24,265
Education and Human Resources	47.076	Yes	3,178,717	–	–	–	–	–	3,178,717
²² Education and Human Resources	47.076	No	53,721	–	–	–	–	–	53,721
<i>Total Education and Human Resources</i>			3,232,438	–	–	–	–	–	3,232,438
Office of Cyberinfrastructure	47.080	Yes	6,657	–	–	–	–	–	6,657
Office of Experimental Program to Stimulate Competitive Research	47.081	Yes	2,546	–	–	–	–	–	2,546
<i>Total National Science Foundation</i>			3,292,786	–	–	–	–	–	3,292,786
Small Business Administration									
Small Business Development Centers	59.037	Yes	–	–	–	–	–	706,179	706,179
<i>Total Small Business Administration</i>			–	–	–	–	–	706,179	706,179

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2012

Federal Grantor/Program Title	CFDA Number	Direct Award	Research and Development Cluster	Student Financial Assistance Cluster	College Access Challenge Grant	Higher Education Institutional Aid	State Fiscal Stabilization Fund	Other Programs	Total Federal Expenditures
<i>US Department of Commerce</i>									
Census Bureau Data Products	11.001	Yes	1,620,553	-	-	-	-	-	1,620,553
²³ Integrated Ocean Observing System (IOOS)	11.012	No	74,717	-	-	-	-	-	74,717
²⁴ Sea Grant Support	11.417	No	48,260	-	-	-	-	-	48,260
Financial Assistance for National Centers for Coastal Ocean Science Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.426	Yes	6,633	-	-	-	-	-	6,633
Undersea Research	11.427	Yes	60,741	-	-	-	-	-	60,741
²⁵ Unallied Science Program	11.430	Yes	10,675	-	-	-	-	-	10,675
²⁵ Unallied Science Program	11.472	No	259,317	-	-	-	-	-	259,317
²⁶ Coastal Services Center	11.473	No	(6,597)	-	-	-	-	-	(6,597)
Center for Sponsored Coastal Ocean Research-Coastal Ocean Program	11.478	Yes	41,297	-	-	-	-	-	41,297
Habitat Conservation	11.463	Yes	3,530	-	-	-	-	-	3,530
²⁷ Habitat Conservation	11.463	No	1,752	-	-	-	-	-	1,752
<i>Total Habitat Conservation</i>			5,281						5,281
<i>Total US Department of Commerce</i>			2,120,878	-	-	-	-	-	2,120,878
Total Federal Expenditures			<u>\$ 10,347,910</u>	<u>\$ 11,028,613</u>	<u>\$ 1,431,664</u>	<u>\$ 2,970,157</u>	<u>\$ 2,338,934</u>	<u>\$ 2,885,750</u>	<u>\$ 31,003,028</u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

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

- ¹ University of South Florida (-\$30,855)
- ² University of Florida (\$40,975)
- ³ VI Dept. of Health Child Care and Development (\$-1,040)
- ⁴ Central State University (\$1,669)
- ⁵ University of Georgia (-\$4,162)
- ⁶ University of Rhode Island (\$41,778)
- ⁷ University of Florida (\$7,143)
- ⁸ University of Guam (\$120,684)
University of Puerto Rico (\$14,164)
- ⁹ University of Florida (\$1,589)
- ¹⁰ University of Tennessee (\$10,257)
- ¹¹ University of Georgia (-\$2,756)
- ¹² University of Hawaii (\$28,903)
- ¹³ University of Georgia (\$4,124)
Auburn University (\$4,700)
- ¹⁴ ARRA-Office of the Governor (Capital Improvement Projects) (\$2,338,934)
- ¹⁵ V.I. Dept. of Education Special Ed Grants to States (\$90)
- ¹⁶ National Writing Project (\$52,757)
- ¹⁷ V.I. Dept. of Human Services (\$9,923)
- ¹⁸ V.I. Dept. of Labor (-\$2,555)
- ¹⁹ University of North Carolina-Wilmington (-\$585)
- ²⁰ Cornell University (\$10,927)
University of Mississippi (\$681)
University of South Florida (\$12,042)
- ²¹ Universidad Metropolitano Ana Mendez University System (\$24,265)
- ²² University of Florida (\$53,721)
- ²³ University of Puerto Rico (\$74,717)
- ²⁴ University of Puerto Rico (\$48,260)
- ²⁵ Fish and Wildlife Research Institute (\$259,317)
- ²⁶ University of Puerto Rico (-\$6,597)
- ²⁷ Virgin Islands Resource Conservation and Development Project (\$1,752)

University of the Virgin Islands

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2012

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. Loans Programs

The University administers the Federal Perkins Loan Program (CFDA No. 84.038). The outstanding loan balance of \$105,481 as of September 30, 2011, and the loan expenditures of \$7,000 for the fiscal year ended September 30, 2011, are considered current-year federal expenditures.

During the fiscal year ended September 30, 2012, the University processed \$5,276,449 of new loans under the Federal Direct Student Loans Program (CFDA No. 84.268). Since this program is administered by a third-party, the new loans made in the fiscal year ended September 30, 2012, relating to this program are considered current year federal expenditures, whereas the outstanding loan balances are not. The new loans made in the fiscal year ended September 30, 2012, are reported in the Schedule of Expenditures of Federal Awards.

University of the Virgin Islands

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2012

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 \$1,270,746

4. Subrecipients

The University provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount disbursed in fiscal year 2012
College Access Challenge Grant Program	84.378	\$1,000,000
Research and Development Cluster	Various	179,988
Total		<u>\$1,179,988</u>

5. Contingencies

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

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

University of the Virgin Islands
 Schedule of Findings and Questioned Costs
 Year Ended September 30, 2012

Part I – Summary of Auditors’ Results

Internal Control over Financial Reporting

Material weaknesses identified?..... **Yes**
 Significant Deficiencies Identified?..... **None reported**
 Noncompliance material to financial statements noted?..... **No**

Federal Awards Section

Internal Control over major programs:

Material weaknesses identified?..... **Yes**
 Significant Deficiencies Identified?..... **Yes**

Identification of major programs and type of auditor’s report issued on compliance for major programs:

Major program	CFDA number	Type of report
State Fiscal Stabilization Fund- Government Services, Recovery Act	ARRA-84.397	Unqualified
College Access Challenge Grant Program	84.378	Adverse
Higher Education Institutional Aid	84.031	Unqualified
Student Financial Assistance Cluster	Various	Unqualified
Research and Development Cluster	Various	Unqualified

Any audit findings disclosed that are required to be reported under
 Section .510(a) of OMB Circular A-133?..... **Yes**
 Dollar threshold used to distinguish between Type A and Type B programs..... **\$933,255**
 Auditee qualified as a low-risk auditee **No**

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Section II- Financial Statements Findings

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

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Section II- Financial Statements Findings

Finding Number: 12-01

Topic

The University's lack of controls over the financial statement close process led to significant post-closing and audit adjustments being recorded in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category

Internal Controls

Criteria

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

Condition

As part of our 2012 audit procedures for the University, we noted deficiencies in the University's financial statement close process, including the following:

- Multiple audit/post-closing entries that were not initially identified by the University's internal controls over financial reporting. In addition, some audit differences that were previously known by the University were not adjusted by the University's Accounting Department before the audit procedures started. We also found differences that resulted in reclassifications between accounts; however, they did not have an effect on the current year's changes in net assets. These audit adjustments were related to events and transactions in the following areas: cash, accounts receivable, prepaid expenses, fixed assets, accounts payable, accrued liabilities, notes payable, net assets, revenues and expenses. These adjustments were considered material to the financial statements.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Section II- Financial Statements Findings (continued)

Finding Number: 12-01 (continued)

Condition (continued)

- The compilation of financial data and reconciliation processes were not completed in a timely manner. The lack of procedures and controls in these areas resulted in inefficiencies during the financial statements preparation process.
- Journal entries were not timely prepared and reviewed at two levels, and were not adequately supported. In some cases, we noted journal entries recorded that only had the signature of the preparer but did not have any evidence of approval.

Cause

The primary cause of these post-closing entries and audit adjustments was the lack of timely identification of differences between the balances of the different supporting schedules (sub-ledgers, aging and account details) with the University's general ledger, and the lack of supervisory review at different levels.

Effect

The lack of adequate internal control procedures over its accounting and financial reporting processes led to significant adjustments in the University's financial statements. The post-closing entries created delays in the preparation of the University's financial statements and in the performance of the year-end audit.

The continued existence of these deficiencies could result in material misstatements of the University's financial statements not being prevented or detected, and corrected on a timely basis.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Section II- Financial Statements Findings (continued)

Finding Number: 12-01 (continued)

Recommendation

Management should improve the annual closing process, including more effective monitoring controls over financial information in order to detect and correct errors on a timely basis. On a monthly basis, all general ledger accounts should be supported by reconciliations, roll-forward schedules and other appropriate documentation. All journal entries recorded should also be supported by complete documentation. General ledger accounts support, as well as journal entries, should be timely reviewed at two levels, and evidenced by supervisory signature approval.

In reviewing and developing the closing process, the University should ensure that it has sufficient accounting personnel with the appropriate experience and training to effectively perform the financial statement close process. Additionally, key accounting personnel needs to review the draft financial statements for accuracy of accounting, presentation and disclosure prior to its presentation to the auditors. This may include holding internal training programs for the preparers and first level reviewers related to the financial statement close process.

In addition, all journal entries recorded should have evidence of approval in addition to the preparer's signature.

These procedures will enhance the University's knowledge over its financial condition. It will also improve the University's interim and year-end reporting; and as a result, it will improve the efficiency of the audit process at year-end.

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

Management's Response and Planned Corrective Actions

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

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

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Section II- Financial Statements Findings (continued)

Finding Number: 12-02

Topic

The University's lack of control over the recording of capital assets led to significant post-closing and audit adjustments being recorded in the financial statements, including a correction of a prior period error which resulted in the restatement of the beginning of year net assets. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category

Internal Controls

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 and timely recorded, appropriately supported, and subjected to supervisory review.

Condition Found

During our review of capital assets additions, we noted deficiencies in the University's process for capitalization of assets. The University noted that it had inappropriately understated its capital assets in its 2011 financial statements. The University charged to expense an amount that should have been capitalized as construction in progress in its prior year financial statements. Also, during 2012, the University identified an overstatement of the capital assets in its 2011 financial statements. The University capitalized an amount that should have been recorded as repair and maintenance expense. The effect of these two errors was the net understatement of the University's 2011 capital assets and net assets balance by \$858,541. This material misstatement resulted in the restatement of the beginning of year net assets.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Section II- Financial Statements Findings (continued)

Finding Number: 12-02 (continued)

Cause

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

Effect

The lack of controls over recording of capital assets led to assets that met the capitalization criteria being expensed and not timely transferred to capital assets, in addition to recording expenses as capital assets. Moreover, the lack of supervisory review led to significant adjustments in the University's financial statements, including a correction of a prior period error which resulted in the restatement of the beginning of year net assets.

Recommendation

The University's management should be more closely involved in the monitoring and review of the financial statement close process of its capital assets. On a quarterly basis, at least, management should analyze the expenses incurred during the period to timely identify those that should be capitalized as assets. In addition, at year-end, management should consider reviewing assets capitalized as provided by its third party contractor's report to assets recorded as expense for the year. This will enable the detection and correction of errors on a timely basis.

Management's Response and Planned Corrective Actions

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

Contact person for corrective action: Controller

Anticipated completion date: September 30, 2014

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Section III- Federal Award Findings and Questioned Costs

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

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

Section III- Federal Award Findings and Questioned Costs

Finding Number: 12-03

Program

College Access Challenge Grant (CACG) – CFDA No. 84.378
Research and Development Cluster (Various CFDA numbers)

Category

Internal Control / Compliance

Compliance Requirement

Subrecipient Monitoring

Criteria

The OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The characteristics of internal control are presented in the context of the components of internal control discussed in Internal Control-Integrated Framework (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

The requirements for subrecipient monitoring are contained in 31 USC 7502(f)(2)(B) (Single Audit Act Amendments of 1996 (Pub. L. No. 104-156)), OMB Circular A-133 (§__.225, §__.310(d)(5), §__.400(d)), and OMB Circular A-110 (2 CFR section 215.51(a)), program legislation, Section 1512(h) of ARRA, 2 CFR section 176.50(c), 2 CFR parts 25 and 170, and 48 CFR parts 4, 42, and 52 Federal awarding agency regulations, and the terms and conditions of the award.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

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

Finding Number: 12-03 (continued)

Criteria (continued)

A pass-through entity shall perform the following for the Federal awards it makes: (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 or grant agreements and that performance goals are achieved. (2) Ensure that subrecipients expending \$300,000 (*\$500,000 for fiscal years ending after December 31, 2003*) or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year. (3) Issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and ensure that the subrecipient takes appropriate and timely corrective action.

Condition

The CACG program of the University of Virgin Islands has only one subrecipient of Federal funds. While performing our testing for subrecipient monitoring for the only subrecipient of Federal funds, we noted that there are no subrecipient monitoring policies and procedures in place and the University is not performing the required procedures described above.

The Research and Development program of the University of the Virgin Islands has a total of five (5) subrecipients of Federal Funds. We selected two (2) of the five (5) subrecipients for testing. While performing our testing for subrecipient monitoring we noted that there are no subrecipient monitoring policies and procedures in place and the University is not performing the required procedures described above.

Questioned Costs

College Access Challenge Grant Program (CACG) – CFDA No. 84.378	\$1,000,000
Research and Development Cluster (Various CFDA numbers)	\$ 84,124

Cause

Internal controls regarding the compliance of subrecipient monitoring requirements were not operating effectively.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

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

Finding Number: 12-03 (continued)

Effect

Management could not issue a management decision on audit findings (if any) within 6 months after receipt of subrecipient's audit report. Additionally, noncompliance with the requirements presented above could lead to significant administrative actions by the grantor, including reduction in amounts to be awarded or return of amounts previously awarded. It could also be interpreted as a failure to achieve program objectives.

Recommendation

The University should establish guidelines and internal controls to timely monitor the subrecipients' compliance with federal programs requirements:

- Review subrecipients' reports and follow-up on areas of concern, monitor subrecipients budgets and offer technical assistance when needed.
- Official written policies and procedures shall be reviewed to establish communication of federal award requirements to subrecipients, responsibilities for monitoring, and process and procedures for monitoring. Such policies and procedures shall also include the methodology for resolving findings of subrecipients' noncompliance or weaknesses in internal control, and the requirements for and processing of subrecipients audits, including appropriate adjustments of pass-through entities accounts.
- Issuance of timely management decisions to inform the subrecipients about whether the corrective action plans for audit and monitoring findings is acceptable.
- Maintain a system to track and follow-up on reported deficiencies related to activities funded with this program and ensure that timely corrective action is taken.

Management's Response and Planned Corrective Actions

The University concurs with this finding. Refer to separately issued corrective action plan.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

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

Finding Number: 12-04

Program

Research and Development Cluster (Various CFDA numbers)
Higher Education Institutional Aid – CFDA No. 84.031

Category

Internal Control / Compliance

Compliance Requirement

Procurement, Suspension and Debarment

Criteria

The OMB Circular A-110 (2 CFR part 215) require that non-Federal entities receiving Federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements. The characteristics of internal control are presented in the context of the components of internal control discussed in Internal Control-Integrated Framework (COSO Report), published by the Committee of Sponsoring Organizations of the Treadway Commission. The COSO Report provides a framework for organizations to design, implement, and evaluate control that will facilitate compliance with the requirements of Federal laws, regulations, and program compliance requirements.

Government wide requirements for nonprocurement suspension and debarment are contained in the OMB guidance in 2 CFR part 180, which implements Executive Orders 12549 and 12689, Debarment and Suspension. The OMB guidance, which superseded the suspension and debarment common rule published November 26, 2003, is substantially the same as that rule.

Non-Federal entities are prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred. Covered transactions include those procurement contracts for goods and services awarded under a non-procurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other specified criteria.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

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

Finding Number: 12-04 (continued)

Condition

As part of our audit procedures over Suspension and Debarment of the Research and Development Cluster, we identified nineteen (19) covered transactions totaling approximately \$801,000. We selected a sample of two (2) transactions amounting to \$168,400. During our examination of the sample selected, we did not obtain evidence indicating that the University reviewed the EPLS website, obtained a certification from the vendor, or included a clause in the contracts to ensure that contractors were not suspended or debarred before the contract was signed.

As part of our audit procedures over Suspension and Debarment of the Higher Education Institutional Aid Program – CFDA No. 84.031, we identified twenty (20) covered transactions totaling approximately \$719,000. We selected a sample of two (2) transactions amounting approximately \$69,400. During our examination of the sample selected we did not obtain evidence indicating that the University reviewed the EPLS website, obtained a certification from the vendor, or included a clause in the contracts to ensure that contractors were either suspended or debarred before the contract was signed.

Questioned Costs

Not applicable.

Cause

Internal controls procedures to ensure proper documentation of compliance with Suspension and Debarment requirements were not operating effectively.

Effect

The University could have contracted with a party that was suspended or debarred or whose principals were suspended or debarred which could have led to payment of Federal funds to suspended or debarred parties.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2012

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

Finding Number: 12-04 (continued)

Recommendation

The University should establish and implement procedures to review the EPLS website, obtain a certificate from the vendor, or include a clause in its contracts to ascertain that contractors are not suspended or debarred before signing the contract.

Management's Response and Planned Corrective Actions

The University concurs with this finding. Refer to separately issued corrective action plan.

University of the Virgin Islands

Summary Schedule of Prior Audit Findings

Year Ended September 30, 2012

Finding 2011-07

CFDA	59.037
Name of Federal Program	Small Business Development Centers
Type of Compliance Requirement	Reporting-Reporting of performance report
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Controller
Status	Resolved

Finding 2011-08

CFDA	10.203; 10.500
Name of Federal Program	Payments to Agricultural Expeerimental Stations under the HATCH Act; Cooperative Extension Service
Type of Compliance Requirement	Allowable cost/cost principles-Time and effort reporting
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Controller
Status	Resolved

Finding 2011-09

CFDA	84.378
Name of Federal Program	College Access Challenge Grant Program
Type of Compliance Requirement	Allowable cost/cost principles-Time and effort reporting
Amount of Questioned Cost	\$81,834
Contact Person Responsible for Corrective Action Plan	Controller
Status	Resolved

University of the Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Year Ended September 30, 2012

Finding 2011-10	
CFDA	84.378
Name of Federal Program	College Access Challenge Grant Program
Type of Compliance Requirement	Reporting
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Controller
Status	Resolved

Finding 2011-11	
CFDA	93.307
Name of Federal Program	Minority Health and Health Disparities Research
Type of Compliance Requirement	Procurement, suspension and debarment
Amount of Questioned Cost	\$58,082
Contact Person Responsible for Corrective Action Plan	Controller
Status	Resolved

Finding 2011-12	
CFDA	84.397
Name of Federal Program	State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act
Type of Compliance Requirement	Procurement, suspension and debarment
Amount of Questioned Cost	\$56,000
Contact Person Responsible for Corrective Action Plan	Controller
Status	Resolved

University of the Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Year Ended September 30, 2012

Finding 2011-13

CFDA	84.397
Name of Federal Program	State Fiscal Stabilization Fund (SFSF)- Government Services, Recovery Act
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Cost	Undetermined
Contact Person Responsible for Corrective Action Plan	Controller
Status	Resolved

Finding 2011-14

CFDA	93.895; 10.500; 47.076
Name of Federal Program	Grants for Faculty Development in Family Medicine; Cooperative Extension Service; Education and Human Resources
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Cost	Undetermined
Contact Person Responsible for Corrective Action Plan	Controller
Status	Resolved

Finding 2011-15

CFDA	84.378
Name of Federal Program	College Access Challenge Grant Program
Type of Compliance Requirement	Subrecipient Monitoring
Amount of Questioned Cost	\$1,000,000
Contact Person Responsible for Corrective Action Plan	Controller
Status	Repeated. See finding 2012-03

University of the Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Year Ended September 30, 2012

Finding 2010-02

CFDA	84.063
Name of Federal Program	Federal Pell Grant Program
Type of Compliance Requirement	Special Test and Provisions – Return of Title IV Funds
Amount of Questioned Cost	None
Contact Person Responsive for Corrective Action Plan	Controller
Status	Resolved

Finding 2010-03

CFDA	84.063
Name of Federal Program	Federal Pell Grant Program
Type of Compliance Requirement	Special Test and Provisions - Disbursements To or On Behalf of Students
Amount of Questioned Cost	None
Contact Person Responsive for Corrective Action Plan	Controller
Status	Resolved

Finding 2010-04

CFDA	84.268
Name of Federal Program	Federal Direct Student Loans
Topic	Subrecipient Monitoring
Type of Compliance Requirement	Special Test and Provisions - Student Status Changes (FFEL and Direct Loan)
Amount of Questioned Cost	None
Contact Person Responsive for Corrective Action Plan	Controller
Status	Resolved

Ernst & Young LLP

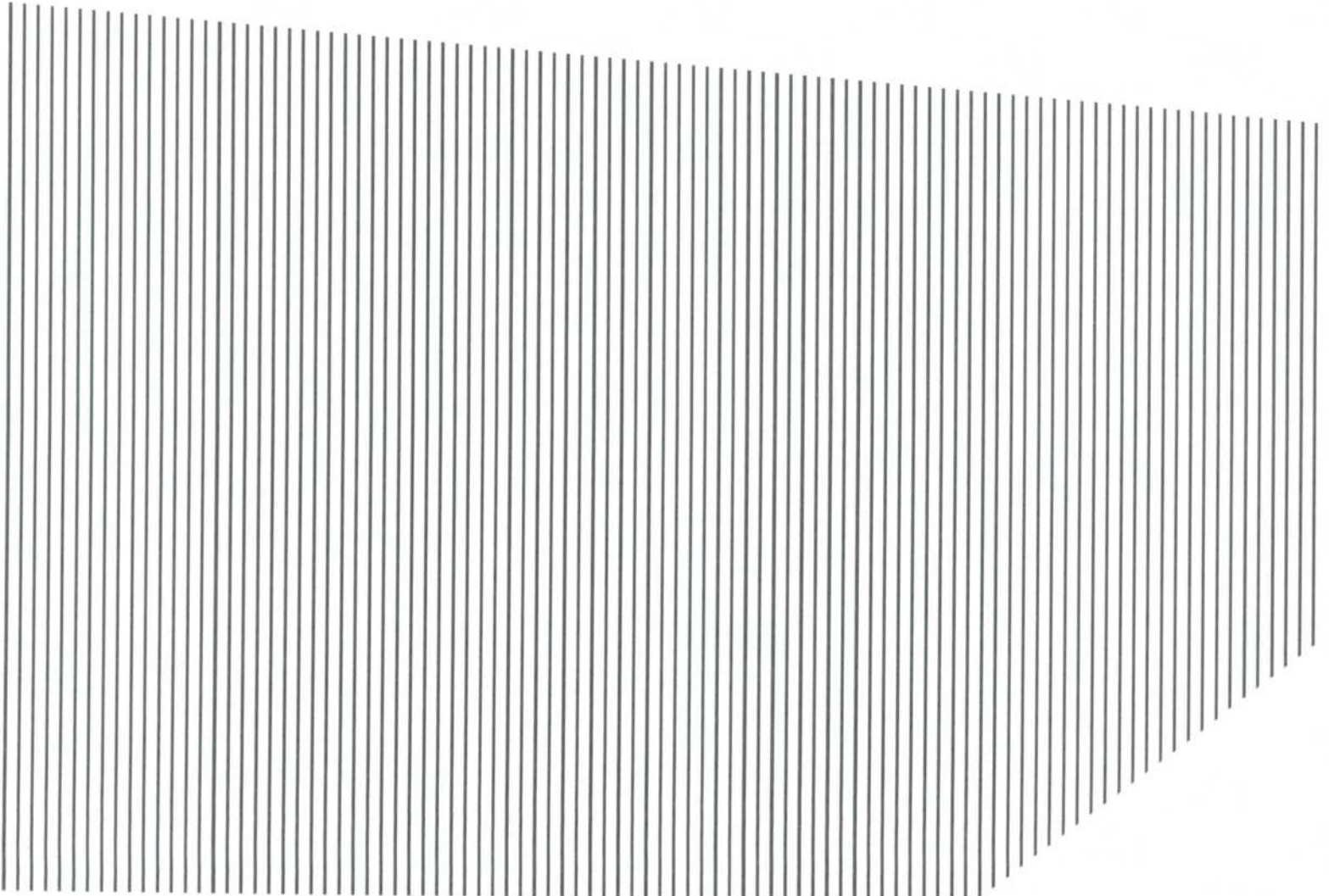
Assurance | Tax | Transactions | Advisory

About Ernst & Young

Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.





University of the Virgin Islands

Corrective Action Plan
for the
Fiscal Year 2012 Single Audit

University of the Virgin Islands

Corrective Action Plan

For the Fiscal Year 2012 Single Audit

Table of Contents

Finding 12-03 – Subrecipient Monitoring1

Finding 12-04 – Procurement, Suspension and Debarment.....2

University of the Virgin Islands

Corrective Action Plan

For the Fiscal Year 2012 Single Audit

Finding Number: 12-03

Program

College Access Challenge Grant Program (CACG) – CFDA No. 84.378
Research and Development Cluster (Various CFDA numbers)

Category

Internal Control / Compliance

Compliance Requirement

Subrecipient Monitoring

Condition

The CACG program of the University of Virgin Islands has only one subrecipient of Federal funds. While performing our testing for subrecipient monitoring for the only subrecipient of Federal funds, we noted that there are no subrecipient monitoring policies and procedures in place and the University is not performing the required procedures described above.

The Research and Development program of the University of the Virgin Islands has a total of five (5) subrecipients of Federal Funds. We selected two (2) of the five (5) subrecipients for testing. While performing our testing for subrecipient monitoring we noted that there are no subrecipient monitoring policies and procedures in place and the University is not performing the required procedures described above.

Questioned Costs

College Access Challenge Grant Program (CACG) – CFDA No. 84.378	\$1,000,000
Research and Development Cluster (Various CFDA numbers)	\$ 84,124

Corrective Action Plan

The University concurs with this finding. The Accounting Office, in conjunction with the Office of Sponsored Programs, have been presenting workshops for principal investigators (PIs) to reiterate post award compliance and federal reporting requirements for those who issue sub awards. Request for the Single Audit is required from Universities as sub awardees. A certification letter was developed for PIs to validate the work performed by vendor sub-recipients.

University of the Virgin Islands
Corrective Action Plan (continued)

For the Fiscal Year 2012 Single Audit

Finding Number: 12-04

Program

Research and Development Cluster (Various CFDA numbers)
Higher Education Institutional Aid – CFDA No. 84.031

Category

Internal Control / Compliance

Compliance Requirement

Procurement, Suspension and Debarment

Condition

As part of our audit procedures over Suspension and Debarment of the Research and Development Cluster, we identified 19 covered transactions totaling approximately \$801,000. We selected a sample of 2 transactions amounting to \$168,400. During our examination of the sample selected, we did not obtain evidence indicating that the University reviewed the EPLS website, obtained a certification from the vendor, or included a clause in the contracts to ensure that contractors were not suspended or debarred before the contract was signed.

As part of our audit procedures over Suspension and Debarment of the Higher Education Institutional Aid Program – CFDA No. 84.031, we identified 20 covered transactions totaling approximately \$719,000. We selected a sample of 2 transactions amounting approximately \$69,400. During our examination of the sample selected we did not obtain evidence indicating that the University reviewed the EPLS website, obtained a certification from the vendor, or included a clause in the contracts to ensure that contractors were either suspended or debarred before the contract was signed.

Questioned Costs

Not applicable.

Corrective Action Plan

The University concurs with this finding. The University has updated and revised property and procurement policy. This policy was approved by the Board of Trustees. Training sessions has been offered to disseminate the information; the policy is also available on the University's website. The Purchasing Office has also developed a letter requiring all vendors to validate that they have not been suspended or debarred.