

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

University of the Virgin Islands
Year Ended September 30, 2013

Ernst & Young LLP



University of the Virgin Islands

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

Year Ended September 30, 2013

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Financial Statements



Ernst & Young LLP
1000 Scotiabank Plaza
273 Ponce de León Avenue
San Juan, PR 00917-1951

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

Report of Independent Auditors

Board of Trustees
University of the Virgin Islands

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of 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, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the discretely presented component unit of the University as of September 30, 2013, and the respective changes in financial position and, where applicable, its cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 - 18 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 which 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated March 28, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Ernst + Young LLP

March 28, 2014

University of the Virgin Islands
Management's Discussion and Analysis

Year Ended September 30, 2013

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, 2013, with selected comparative information for the year ended September 30, 2012. 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. We have reclassified certain prior year balances for comparative purposes.

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

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

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

Blended Component Unit: The Foundation, a blended component unit, although legally separate, is reported as if it was part of the primary government because it operates for the sole purpose of assisting and supporting the University in accomplishing its charitable and educational mission, engages collaboratively with the University in its fundraising efforts, and provides services entirely to the University.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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

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

Reporting Entity

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

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

Overview of the Basic Financial Statements

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

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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

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

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

New Accounting Standards Adopted

The University implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34 (GASB Statement No. 61)* in fiscal year 2013. The Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and the organization for it to be included in the reporting entity as a component unit. For organizations that do not meet the financial accountability criteria for inclusion as component units, but should be included because the primary government's management determines that it would be misleading to exclude them, GASB Statement No. 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the

University of the Virgin Islands

Management's Discussion and Analysis (continued)

determination. For component units that currently are blended based on “substantively the same governing body” criterion, GASB Statement No. 61 requires that the primary government and the component unit have a financial benefit or burden relationship or management of the primary government has operational responsibility of the activities of the component unit. New criteria also is added to require blending of component units whose total debt outstanding is expected to be repaid almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. GASB Statement No. 61 requires a primary government to report its equity interest in a component unit as an asset.

As a result of the analysis performed by the University in the course of implementing GASB Statement No. 61, no significant changes were made to the financial reporting entity. The Foundation continues to be presented as a blended component unit, and the Reichhold Foundation continues to be presented as a discretely presented component unit, as further discussed at the beginning of the Management's Discussion and Analysis at pages 3 and 4.

The University has also implemented, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB Statement No. 63”) in fiscal year 2013. The Statement provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. The Statement also amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of GASB Statement No. 63 resulted in a change in the presentation of the *Statement of Net Assets* to what is now referred to as the *Statement of Net Position* and the term “net assets” is changed to “net position” throughout the financial statements. The Statement also amends the reporting of the “net investment in capital assets” component of net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Statement of Net Position

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

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

	Fiscal Year 2013	Fiscal Year 2012	\$ Change
Assets			
Current assets	\$ 25,582,949	\$ 34,610,877	\$ (9,027,928)
Noncurrent assets			
Capital assets, less accumulated depreciation	69,176,049	68,453,407	722,642
Other	39,675,524	33,732,731	5,942,793
Total assets	134,434,522	136,797,015	(2,362,493)
Liabilities			
Current liabilities	12,173,781	10,553,537	1,620,244
Noncurrent liabilities	53,803,951	50,962,381	2,841,570
Total liabilities	65,977,732	61,515,918	4,461,814
Total net position	\$ 68,456,790	\$ 75,281,097	\$ (6,824,307)

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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 \$25.6 million cover the current liabilities of \$12.2 million. The current ratio decreased to 2.1 in fiscal year 2013 from 3.3 in fiscal year 2012. The reason for this decrease is primarily due to the use of cash to support the increase in the University's operating expenses.

Noncurrent Assets

Noncurrent assets include restricted cash and cash equivalents, restricted deposits with trustee, students' loans receivables, endowment investments at fair value and capital assets. There was an increase of \$6.7 million in the noncurrent assets primarily due to the acquisition of new endowment investments at fair value.

Capital Assets

One of the critical factors in continuing the quality of the University's academic and research programs is the development and renewal of capital assets. The University continues to implement its long-range plan to modernize its complement of older buildings along with a balanced investment in new construction. Capital assets additions totaled \$3.9 million in fiscal year 2013 and \$16.8 million in fiscal year 2012. During fiscal year 2012, there was a \$13.8 million net increase in capital assets due to the construction of the 100-bed Residence Hall at the St. Thomas campus.

Capital asset additions primarily represent replacement and improvements to existing buildings, as well as significant investments in equipment. Depreciation expense was \$3.1 million for fiscal year 2013 and \$2.8 million for fiscal year 2012.

Current Liabilities

Current liabilities consist primarily of accounts payable and accrued liabilities, deferred revenue and the current portion of the long-term liabilities. Current liabilities totaled \$12.2 million on September 30, 2013, as compared to \$10.6 million on September 30, 2012. The overall increase of \$1.6 million in current liabilities is mainly related to the increase in the accounts payable and accrued liabilities as of year-end due to some repair and maintenance work performed on the University's capital assets.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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 \$2.8 million in fiscal year 2013. The increase occurred mainly from the final draw from the HBCU Loan.

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. During fiscal year 2013, no advances were requested under the Series 2011-2, and \$4.6 million was requested under the Series 2011-3. The advances requested under the Series 2011-3 were used primarily to finance improvements on existing buildings and the purchase of equipment related to the University's capital assets, and for the purpose of outfitting classrooms laboratories and offices for the College of Science and Mathematics at the Research and Technology Park (RT Park) building located on the Albert A. Sheen St. Croix Campus.

Net Position

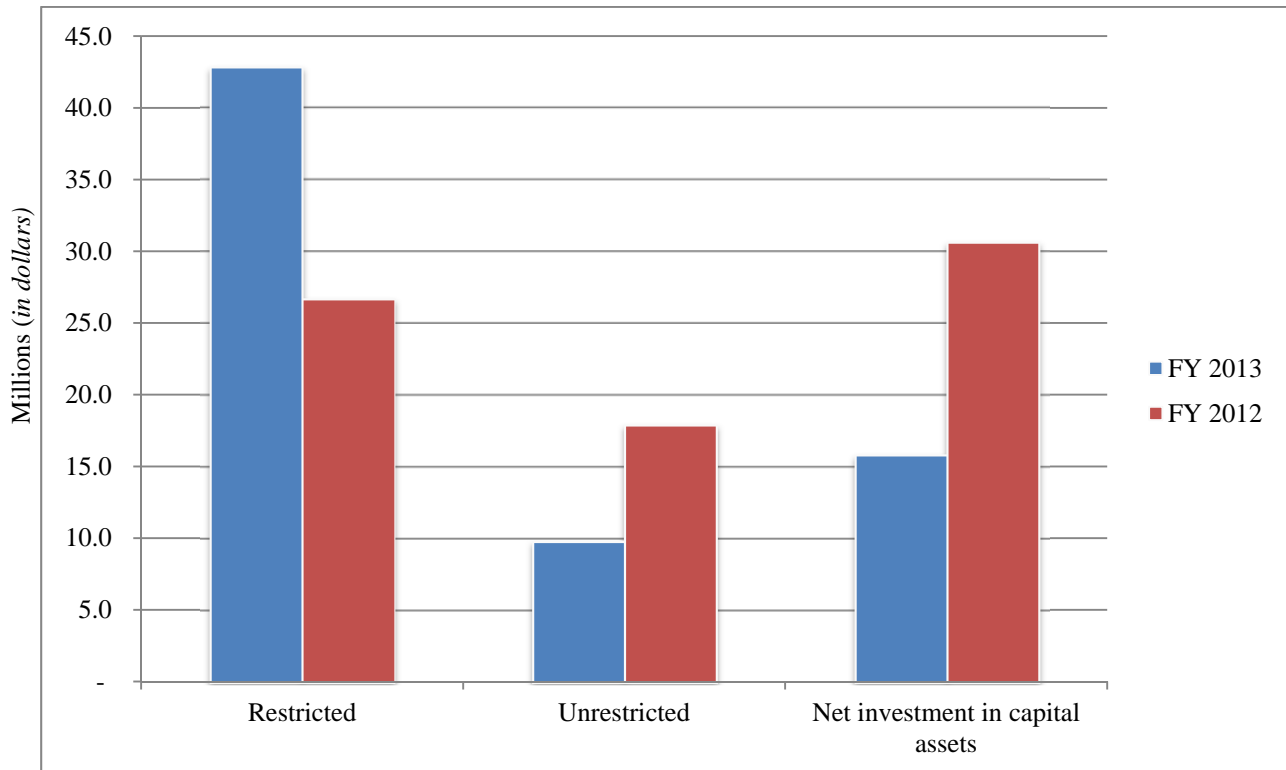
Net position represents the residual interest in the University's assets after liabilities are deducted. Total net position at September 30, 2013 and 2012 were \$68.5 million and \$75.3 million, respectively. The University's net position at September 30, 2013 and 2012 are summarized as follows:

	Fiscal Year 2013	Fiscal Year 2012
Net position:		
Restricted	\$ 42,832,883	\$ 26,666,861
Unrestricted	9,819,307	17,982,472
Net investment in capital assets	15,804,600	30,631,764
Total net position	\$ 68,456,790	\$ 75,281,097

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Net Position (continued)



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

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

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Net Position (continued)

Unrestricted net position is the net position amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position. It represents resources derived from student tuition and fees, local government appropriations, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty and staff. While unrestricted net position may be designated for specific purposes by action of management or the Board, they are available for use, at the discretion of the governing board, to meet current expenses for any purpose.

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

Statement of Revenues, Expenses and Changes in Net Position

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

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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

A summarized comparison of the University's revenues, expenses and changes in net position for the years ended September 30, 2013 and 2012, follows:

	Fiscal Year 2013	Fiscal Year 2012	\$ Change
Operating revenues:			
Tuition and fees, net of scholarship allowance	\$ 14,219,843	\$ 14,768,093	\$ (548,250)
Grants and contracts	19,754,533	22,679,345	(2,924,812)
Auxiliary enterprises	3,030,388	3,554,697	(524,309)
Other operating revenues	329,942	353,706	(23,764)
Total operating revenues	37,334,706	41,355,841	(4,021,135)
Operating expenses	81,338,292	77,052,577	4,285,715
Operating loss	(44,003,586)	(35,696,736)	(8,306,850)
Nonoperating revenues (expenses):			
Local government appropriation	24,886,663	25,686,834	(800,171)
Federal Pell Grant Program	4,999,198	5,578,350	(579,152)
Other non-operating income	5,447,825	5,401,977	45,848
Interest on indebtedness	(2,146,612)	(2,658,637)	512,025
Net non-operating revenues	33,187,074	34,008,524	(821,450)
Loss before capital appropriations	(10,816,512)	(1,688,212)	(9,128,300)
Capital appropriations	3,992,205	3,992,205	-
Change in net position	(6,824,307)	2,303,993	(9,128,300)
Net position:			
Net position at beginning of year	75,281,097	72,977,104	2,303,993
Net position at end of year	\$ 68,456,790	\$ 75,281,097	\$ (6,824,307)

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Statement of Revenues, Expenses and Changes in Net Position (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 2013 appropriations decreased by 3% from that of the previous fiscal year. The University continues to aggressively seek funding from all possible sources consistent with its mission. The University prudently manages the financial resources from these efforts to fund its operating activities.

Tuition and local government appropriations are the primary source of funding for the University's academic programs. There is a direct relationship between the growth or reduction in local government support and the University's ability to restrain tuition and fee increases. The University strives to provide students with access to a quality education at an affordable cost. The fiscal year 2013 decrease in net tuition and fees of \$0.5 million is mainly due to a decrease in student enrollment for the fiscal year. Local government appropriations decreased by \$0.8 million due to a reduction in the amount allocated by the Government. The University anticipated a higher reduction but, due to the restoration of the 8% salary cuts, the reduction was smaller. The University continues to foster a strong relationship and partnership with the local government and recognizes the importance of its continued support.

The \$3.5 million decrease in grants and contracts is related to a decrease in the number of grants awarded and received during fiscal year 2013, when compared to fiscal year 2012. The largest decrease of grants not awarded and received during fiscal year 2013 were the American Recovery and Reinvestment Act (ARRA) funds.

Auxiliary enterprises include the revenue derived from bookstores sales, residence halls and campus housing fees, Wellness Center membership fees, and Reichhold Center ticket and concession stand sales. There was a decrease of \$0.5 million in this area, which was comprised mainly of a reduction in bookstores sales.

Other non-operating revenues consist of investment income and gifts which continue to increase due to improving conditions in the marketable securities area, and other revenues consist mainly of capital appropriations received from the Government to meet outstanding capital debt obligations.

For fiscal year 2013, operating expenses totaled \$81.3 million including compensation and benefits of \$39.1 million, supplies and other expenditures of \$24.7 million, depreciation expense of \$3.1 million, scholarships of \$9.0 million, and utilities of \$5.4 million.

University of the Virgin Islands

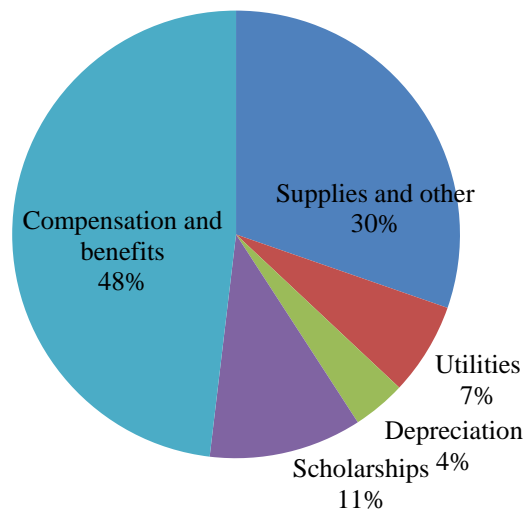
Management's Discussion and Analysis (continued)

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

A comparative summary of the University's operating expenses for the years ended September 30, 2013 and 2012, is as follows:

	Fiscal Year 2013	Fiscal Year 2012
Compensation and benefits	\$ 39,136,289	\$ 40,025,122
Supplies and other	24,662,190	20,363,035
Depreciation	3,130,566	2,803,957
Scholarships	8,975,747	9,279,142
Utilities	5,433,500	4,581,321
Total operating expenses	\$ 81,338,292	\$ 77,052,577

Fiscal Year 2013 Summary of Operating Expenses



University of the Virgin Islands

Management's Discussion and Analysis (continued)

Statement of Revenues, Expenses and Changes in Net Position (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 local law was rescinded in July of 2013, therefore, all employees' salaries are back to 100% of their negotiated salary package. The decrease in compensation and benefits was due to the nonoccurrence in fiscal year 2013 of the pension benefit paid to TIAA CREFF employees in fiscal year 2012.

Supplies and other expenses increased due to repair and maintenance work performed on the University's capital assets, and the payment of approximately \$2.0 million for the purpose of outfitting classrooms laboratories and offices at the RT Park building to be used by the University's faculty and students.

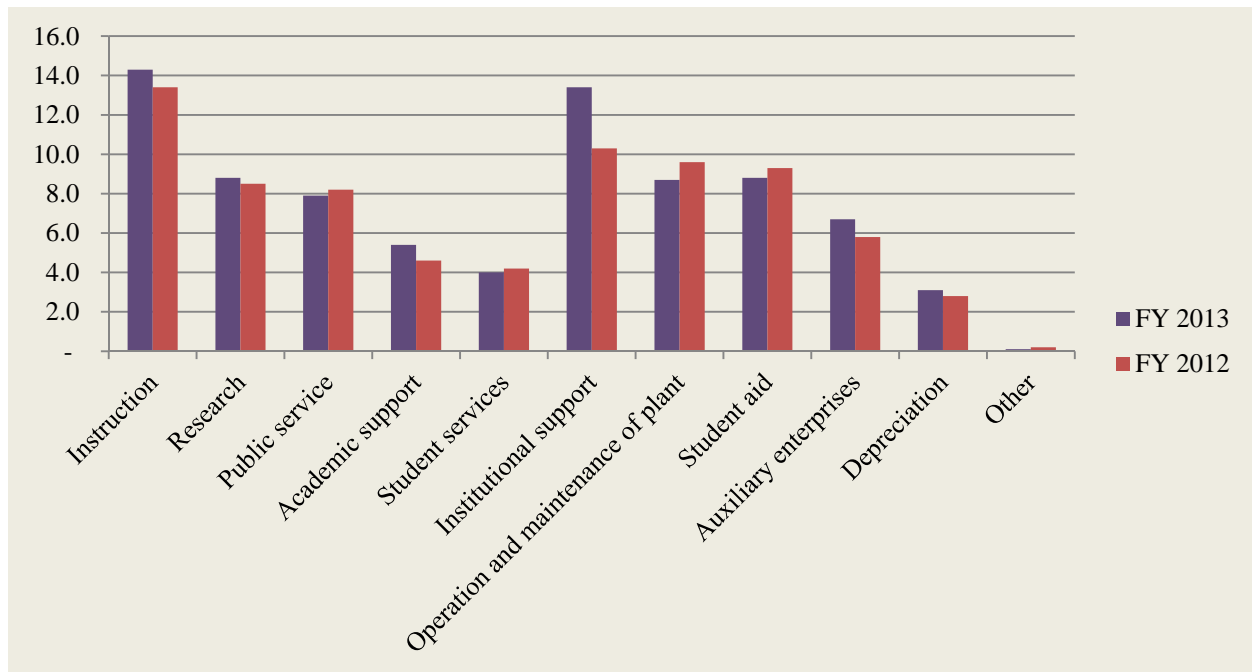
A comparative summary of the University's total operating expenses by functional classification for the years ended September 30, 2013 and 2012, is as follows:

Function:	Fiscal Year 2013	Fiscal Year 2012
Instruction	\$ 14,341,044	\$ 13,417,658
Research	8,808,002	8,471,990
Public service	7,888,247	8,234,700
Academic support	5,382,555	4,625,738
Student services	4,033,507	4,231,791
Institutional support	13,436,887	10,311,860
Operation and maintenance of plant	8,650,918	9,617,534
Student aid	8,845,333	9,279,142
Auxiliary enterprises	6,707,327	5,803,683
Depreciation	3,130,566	2,803,957
Other	113,906	254,524
Total expenses by function	\$ 81,338,292	\$ 77,052,577

University of the Virgin Islands

Management's Discussion and Analysis (continued)

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



Expenditures in most of the functional areas increased, when compared to fiscal year 2012, primarily due to the restoration of salaries. In addition, the institutional support function increased due to the payment of approximately \$2.0 million for the purpose of outfitting classrooms laboratories and offices to be used by the University's faculty and students. The decrease in student aid is attributed to the reduction in student enrollment. The depreciation expenditure increased due to the capital assets additions during 2013 and the full year depreciation of the new 100-bed Residence hall completed in fiscal year 2012.

Factors Impacting Future Periods

During fiscal year 2013, the University felt the impact of the negative global economy. The University's President and his Cabinet continue to explore new ways to address the reduction in revenue decline in student enrollment.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Factors Impacting Future Periods (continued)

The University continues to make great strides on the Pathways to Greatness with focus on the goals and objectives of the Strategic Plan 2017. UVI continues to use its resources effectively to promote academic quality and excellence, student development and success, organizational and human development, modern and safe university environment, financial sustainability and growth, and community engagement and globalization. The more significant accomplishments of the strategic plan during the 2013-2014 period include:

- Development of an economic impact analysis of the University
- Board of Trustees' approval of the new method of presenting the Key Performance Indicators (KPIs) that are linked to the Strategic Plan
- Implementation of Strategic Planning On Line (SPOL) software to track goals and objectives of the Strategic Plan 2017
- Application for the Certified Public Manager Program Accreditation
- Implementation of the University's Parking Policy and Initiative
- Kick-off of the WOW Customer Service Campaign
- Launch of the new UVI website
- Increase by more than 20% the participation of young men in the Brothers with a Cause Organization
- Improvement and establishment of facilities on both campuses - VI Caribbean Cultural Center (VI CCC), Center for Spirituality and Professionalism (CSAP), and the Social Science Building
- Dedication of the RT Park building and the new home for the College of Science and Mathematics on the Albert A. Sheen Campus
- Development of a Career Advancement Policy
- Development of the UVI Next Academic Programs and Administrative Services Transformation Study
- Development and implementation of an Enrollment Management Plan
- Initial work on a Retention Improvement Plan
- Completion of the "First to 50" Alumni Giving Challenge
- Student Government President (STX) Kevin Dixon recognized nationally as an All Star for the 2014 White House Initiative on Historically Black Colleges and Universities

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Request for Information

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

University of the Virgin Islands

Statement of Net Position

September 30, 2013

	University	Component Unit
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,600,698	\$ 103,496
Accounts receivable, net of allowance for doubtful accounts of \$854,432	12,443,563	–
Inventories	909,711	–
Prepaid expenses and other current assets	628,977	–
Total current assets	25,582,949	103,496
Noncurrent assets:		
Restricted cash and cash equivalents	277,477	–
Restricted deposits with trustee	4,116,234	–
Students loans receivable, net of allowance for doubtful accounts of \$320,010	277,304	–
Investments at fair value	–	11,278,392
Restricted investments at fair value	33,941,129	–
Other assets	1,063,380	–
Capital assets, net	69,176,049	–
Total noncurrent assets	108,851,573	11,278,392
Total assets	134,434,522	11,381,888
Liabilities		
Current liabilities:		
Excess of outstanding checks over bank balance	301,261	–
Accounts payable and accrued liabilities	4,741,867	–
Deferred revenue	3,765,965	–
Current portion of long-term liabilities	3,364,688	–
Total current liabilities	12,173,781	–
Noncurrent liabilities:		
Long-term debt	50,006,761	–
Accrued vacation	3,513,940	–
Other long-term liabilities	283,250	–
Total noncurrent liabilities	53,803,951	–
Total liabilities	65,977,732	–

(Continued)

University of the Virgin Islands
Statement of Net Position (continued)
September 30, 2013

	University	Component Unit
Net position		
Net investment in capital assets	15,804,600	–
Restricted nonexpendable	4,393,711	–
Restricted expendable:		
Grants	33,941,129	–
Scholarships	2,542,988	–
Loans	891,675	–
Other	1,063,380	–
Unrestricted	9,819,307	11,381,888
Total net position	\$ 68,456,790	\$ 11,381,888

See accompanying notes.

University of the Virgin Islands

Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2013

	University	Component Unit
Operating revenues		
Tuition and fees (net of scholarship allowance of \$237,967)	\$ 14,219,843	\$ –
Federal grants and contracts	17,565,968	–
State grant and contracts	2,188,565	–
Auxiliary enterprises	3,030,388	–
Other	329,942	–
In-kind contribution	–	179,517
Total operating revenues	37,334,706	179,517
Operating expenses		
Salaries:		
Faculty	9,141,948	–
Exempt staff	13,543,683	–
Nonexempt wages	7,552,565	–
Benefits	8,898,093	–
Scholarships	8,975,747	–
In-kind contribution	–	179,517
Contributions to the University	–	500,200
Utilities	5,433,500	–
Supplies and other services	23,595,543	64,068
Depreciation	3,130,566	–
Other expenses	1,066,647	–
Total operating expenses	81,338,292	743,785
Operating loss	(44,003,586)	(564,268)

(Continued)

University of the Virgin Islands

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

Year Ended September 30, 2013

	University	Component Unit
Nonoperating revenues (expenses):		
Local government appropriation	24,886,663	–
Federal Pell Grant Program	4,999,198	–
Gifts	2,788,431	–
Net investment income	2,659,394	1,885,776
Interest on indebtedness	(2,146,612)	–
Total nonoperating revenues, net	33,187,074	1,885,776
(Loss) income before capital appropriations	(10,816,512)	1,321,508
Capital appropriations	3,992,205	–
Change in net position	(6,824,307)	1,321,508
Net position at beginning of year	75,281,097	10,060,380
Net position at end of the year	\$ 68,456,790	\$ 11,381,888

See accompanying notes.

University of the Virgin Islands

Statement of Cash Flows

Year Ended September 30, 2013

	University
Cash flows from operating activities	
Tuition and fees	\$ 13,947,899
Grants and contracts	19,754,533
Auxiliary enterprises and other	6,870,918
Payments to suppliers and vendors	(24,678,724)
Payments to employees	(30,158,752)
Payments for utilities	(5,433,500)
Payments for benefits	(8,688,085)
Payments for scholarships	(8,975,747)
Net cash used in operating activities	(37,361,458)
 Cash flows from noncapital financing activities	
Local government appropriations	24,886,663
Federal Pell Grant Program	4,999,198
Endowment gifts	2,788,432
Gifts and grants for other than capital purposes	352,617
Net cash provided by noncapital financing activities	33,026,910
 Cash flows from investing activities	
Proceeds from sales and maturities of investments	31,566,162
Investment income	2,659,394
Purchases of investments	(41,468,499)
Net cash used in investing activities	(7,242,943)
 Cash flows from capital and related financing activities	
Capital appropriations	3,992,205
Purchases of capital assets	(3,110,263)
Proceeds from capital debt	4,580,373
Principal paid on capital debt	(1,850,297)
Interest paid on capital debt	(1,848,595)
Increase in deposits held with trustee	(1,517,722)
Net cash provided by capital and related financing activities	245,701
Net change in cash and cash equivalents	(11,331,790)
 Cash and cash equivalents at beginning of year	23,209,965
Cash and cash equivalents at end of year	\$ 11,878,175

(Continued)

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

Year Ended September 30, 2013

	University
Supplemental schedule of noncash capital and financing activities	
Donated land	\$ 747,000
Reconciliation of net operating loss to net cash used in operating activities	
Operating loss	\$ (44,003,586)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	3,130,566
Changes in assets and liabilities, net:	
Grants and contracts receivables	4,543,733
Student receivables	(319,707)
Other accounts receivable	(1,741,717)
Inventories	(118,584)
Prepaid expenses and other current assets	992,712
Excess of outstanding checks over bank balance	301,261
Accounts payable and accrued liabilities	(146,136)
Net cash used in operating activities	\$ (37,361,458)

See accompanying notes.

University of the Virgin Islands

Notes to Financial Statements

September 30, 2013

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

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

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Reporting Entity (continued)

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

Component Units

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

Foundation for the University of the Virgin Islands

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

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

Foundation for the Reichhold Center for the Arts

The Reichhold Foundation is a not-for-profit corporation organized exclusively for charitable and educational purposes with its principal emphasis on the arts in the Virgin Islands. The Reichhold Foundation provides financial assistance incidental to maintaining and operating the Reichhold Center for the Arts located on the St. Thomas campus. The resources (and income thereon), which the Reichhold Foundation holds and invests, are restricted to the activities of the University. Since the University does not appoint a voting majority of the Reichhold Foundation's governing body nor is the Reichhold Foundation

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Component Units (continued)

fiscally dependent on the University, the University is not considered to be financially accountable for the Reichhold Foundation. However, as the resources held by the Reichhold Foundation can only be used by, or for the benefit of the University, the Reichhold Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The financial statements of the discretely presented component unit have a September 30 year-end, as the University's financial statements year-end.

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

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

Measurement Focus and Basis of Accounting

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

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

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, 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 position.

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

Students and Other Receivables, and Allowance for Doubtful Accounts

Students and other receivables are reported at the estimated net realizable amount. The allowance for doubtful accounts is an amount that management believes will be adequate to absorb possible losses on existing receivables that may become uncollectible based on evaluations of the collectability of the receivables and prior credit loss experience.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) 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, 2013. 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.

Description:	Capitalization Threshold
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

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Deferred Refunding Loss

Deferred refunding loss is amortized over the remaining life of the old debt or the life of the new debt, whichever is shorter, and is included as a reduction to long-term debt.

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, 2013, approximately \$3,765,965 of tuition and fees collected that relate to the remainder of the fall semester are deferred.

Net Position

The University's net position is classified as follows:

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

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

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

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Net Position (continued)

Unrestricted net position is the net position amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position. It represents resources derived from student tuition and fees, state appropriations, sales and services of educational activities and auxiliary enterprises. Auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty and staff. While unrestricted net position may be designated for specific purposes by actions of management or the Board of Trustees, they are available for use, at the discretion of the governing board, to meet current expenses for any purpose. Substantially, all unrestricted net position are designated for academic and research programs and initiatives, and capital programs.

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.

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, and are not recorded as assets until the related gift has been received. Unconditional promises that are expected to be collected in future years are recorded at the present value of the estimated future cash flows.

Grants and Contracts

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

Scholarship Discount and Allowances

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

University of the Virgin Islands

Notes to Financial Statements (continued)

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

New Accounting Standards Adopted

In fiscal year 2013, the University adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements (GASB Statement No. 60)*.
- GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34 (GASB Statement No. 61)*.
- GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements (GASB Statement No. 62)*.
- GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (GASB Statement No. 63)*.

GASB Statement No. 60 establishes recognition, measurement and disclosure requirements for Service Concession Arrangements for both transferors and governmental operators. A Service Concession Arrangement is an arrangement between a transferor (government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a facility) in exchange for significant consideration and the operator collects and is compensated by fees from third parties. A transferor reports the facility subject to a Service Concession Arrangement as its Capital Asset. New Capital Assets constructed or acquired by the operator or improvements to existing Capital Assets made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenues are recognized by the transferor on a systematic and rational manner over the term of the arrangement. A governmental operator reports an intangible asset at cost for its right to access the facility and collect third-party fees and amortizes the intangible asset over the term of the arrangement. For revenue sharing arrangements, operators must report all revenues and expenses and transferors must report their portion of the shared revenues. The adoption of this statement had no impact on the University's financial statements.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

New Accounting Standards Adopted (continued)

GASB Statement No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and the organization for it to be included in the reporting entity as a component unit. For organizations that do not meet the financial accountability criteria for inclusion as component units, but should be included because the primary government's management determines that it would be misleading to exclude them, GASB Statement No. 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination. For component units that currently are blended based on "substantively the same governing body" criterion, GASB Statement No. 61 requires that the primary government and the component unit have a financial benefit or burden relationship or management of the primary government has operational responsibility of the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting. GASB Statement No. 61 requires a primary government to report its equity interest in a component unit as an asset.

As a result of the analysis performed by the University in the course of implementing GASB Statement No. 61, no significant changes were made to the financial reporting entity. The Foundation continues to be presented as a blended component unit, and the Reichhold Foundation continues to be presented as a discrete component unit.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

New Accounting Standards Adopted (continued)

The objective of GASB Statement No. 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' Committee on Accounting Procedure. GASB Statement No. 62 also supersedes Statement No. 20, *Accounting and Financial Reporting for Propriety Funds and Other Governmental Entities That Use Proprietary Fund Accounting*. Those entities who chose to apply post-November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements can continue to apply those pronouncements as other accounting literature. There was no impact on the University's financial statements as a result of the implementation of GASB Statement No. 62.

GASB Statement No. 63 provides financial reporting guidance for deferred outflows of resources, which is a consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources which is an acquisition of net assets by the government that is applicable to a future reporting period. The Statement also amends the net asset reporting requirements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The adoption of GASB Statement No. 63 resulted in a change in the presentation of the *Statement of Net Assets* to what is now referred to as the *Statement of Net Position* and the term "net assets" is changed to "net position" throughout the financial statements. The Statement also amends the reporting of the "net investment in capital assets" component of net position. This component consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are now required to be included in this component of net position.

University of the Virgin Islands

Notes to Financial Statements (continued)

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

Future Adoption of Accounting Pronouncements

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
65	Items Previously Reported as Assets and Liabilities	2014
66	Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62	2014
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	2015
70	Accounting and Financial Reporting for Non-exchange Financial Guarantees	2015
71	Pension Transition for Contributions Made Subsequent to the Measurement Date	2015

University of the Virgin Islands

Notes to Financial Statements (continued)

2. Blended Component Unit Condensed Financial Information

Following is the Foundation's condensed financial information for fiscal year 2013:

	<u>2013</u>
Condensed information from Statement of Net Position	
Current assets	\$ 1,344,894
Non-current assets excluding capital assets	34,218,606
Capital assets, less accumulated depreciation	<u>113,000</u>
Total assets	<u>35,676,500</u>
Current liabilities	<u>11,175,886</u>
Total liabilities	<u>11,175,886</u>
Net position:	
Restricted nonexpendable	23,275,601
Restricted expendable	<u>1,225,013</u>
Total net position	<u>\$ 24,500,614</u>
Condensed information from Statement of Revenues, Expenses and Changes in Net Position	
Operating expenses	<u>\$ (1,552,950)</u>
Operating loss	<u>(1,552,950)</u>
Non-operating revenues	<u>4,509,931</u>
Change in net position	2,956,981
Net position:	
Net position at beginning of year	<u>21,543,633</u>
Net position at end of year	<u>\$ 24,500,614</u>

University of the Virgin Islands

Notes to Financial Statements (continued)

2. Blended Component Unit Condensed Financial Information (continued)

	2013
Condensed information from Statement of Cash Flows	
Operating activities	
Payments to suppliers and vendors	\$ (112,959)
Net cash used in operating activities	(112,959)
Noncapital financing activities	
Endowment gifts	1,000,000
Gifts and grants for other than capital purposes	647,618
Net cash provided by noncapital financing activities	1,647,618
Investing activities	
Transfer from UVI	9,735,895
Proceeds from sales and maturities of investments	28,703,849
Investment income	2,862,313
Purchases of investments	(41,385,122)
Net cash used in investing activities	(83,065)
Net change in cash and cash equivalents	1,451,594
Cash and cash equivalents at beginning of year	170,777
Cash and cash equivalents at end of year	\$ 1,622,371
Reconciliation of net operating loss to net cash used in operating activities	
Operating loss	\$ (1,552,950)
Adjustments to reconcile operations loss to net cash used in operating activities:	
Due to UVI	1,439,991
Net cash used in operating activities	\$ (112,959)

University of the Virgin Islands

Notes to Financial Statements (continued)

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, 2013, 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, 2013, cash and cash equivalents amounted to approximately \$11.6 million and restricted cash equivalents amounted to approximately \$0.3 million.

4. Accounts Receivable

The University's accounts receivable as of September 30, 2013, are composed of the following:

U.S. Virgin Islands Government	\$ 685,938
U.S. Federal Government	8,103,054
Student	1,976,119
Due from related party (Tech Park), <i>see Note 13</i>	1,007,114
Other	<u>1,525,770</u>
	13,297,995
Less allowance for doubtful accounts	<u>(854,432)</u>
Accounts receivable, net	<u><u>\$ 12,443,563</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. The University and the Reichhold Foundation have a formal investment policy approved by their corresponding Board of Trustees, which contains a requisite section on addressing risks.

University of the Virgin Islands

Notes to Financial Statements (continued)

5. Investments (continued)

In fiscal year 2013, the Board passed a resolution to transfer all of the University's investments to the Foundation's investments portfolio. This transaction was completed during this year, therefore, all investments held by the Foundation will be shown within the University's schedules included below.

The University's investments as of September 30, 2013, consist of the following:

	<u>Fair Value</u>
Corporate bonds	\$ 189,744
Equities	1,616,383
Mutual funds	326,211
Alternative strategies	31,808,791
	<u><u>\$ 33,941,129</u></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, 2013, consist of:

	<u>Fair Value</u>
Corporate bonds	\$ 518,024
Equities	4,595,893
Mutual funds	6,164,475
	<u><u>\$ 11,278,392</u></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)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the University's and Reichhold Foundation's investment in a single issuer of securities. The University's and the Reichhold Foundation's investment policy establishes limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk.

At September 30, 2013, there were investments in a single issuer of securities that represent 5% or more of total investments for the University and for the Reichhold Foundation.

Interest-Rate Risk

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

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

Years until maturity	<1	1-2	3-5	6-10	11-15	16+	Total
Corporate bonds	\$ 130,164	\$ -	\$ 59,580	\$ -	\$ -	\$ -	\$ 189,744
Total	\$ 130,164	\$ -	\$ 59,580	\$ -	\$ -	\$ -	\$ 189,744

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

Years until maturity	<1	1-2	3-5	6-10	11-15	16+	Total
Corporate bonds	\$ 152,467	\$ 344,126	\$ -	\$ -	\$ -	\$ 21,431	\$ 518,024
Total	\$ 152,467	\$ 344,126	\$ -	\$ -	\$ -	\$ 21,431	\$ 518,024

University of the Virgin Islands

Notes to Financial Statements (continued)

5. Investments (continued)

Credit Risk

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

As of September 30, 2013, the University's credit quality distribution for securities was as follows:

	Carrying Value	Standard & Poor's Ratings
Corporate bonds	\$ 189,744	Not rated
Total corporate bonds	\$ 189,744	

As of September 30, 2013, the Reichhold Foundation's credit quality distribution for securities was as follows:

	Carrying Value	Standard & Poor's Ratings
Corporate bonds	\$ 106,560	AA
Corporate bonds	113,409	A
Corporate bonds	50,955	AA-
Corporate bonds	97,657	A-
Corporate bonds	101,184	BBB-
Corporate bonds	48,259	Not rated
Total corporate bonds	\$ 518,024	

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, 2013, the custody of these investments is held by the trust department of a commercial bank in the name of the University and the Reichhold Foundation, and the portfolio is managed by a brokerage firm.

6. Donor-Restricted Endowments

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

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

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

University of the Virgin Islands

Notes to Financial Statements (continued)

7. Student Loans Receivable

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

8. Capital Assets

Changes in capital assets for the year ended September 30, 2013, are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 5,438,112	\$ 747,000	\$ –	\$ 6,185,112
Construction-in-progress	–	357,396	–	357,396
Total capital assets not being depreciated	<u>5,438,112</u>	<u>1,104,396</u>	<u>–</u>	<u>6,542,508</u>
Capital assets being depreciated:				
Land improvements	2,727,577	71,670	–	2,799,247
Buildings, fixed equipment, improvements and infrastructure	86,886,847	889,386	–	87,776,233
Equipment and library materials	23,486,903	1,791,811	(141,672)	25,137,042
Total capital assets being depreciated	<u>113,101,327</u>	<u>2,752,867</u>	<u>(141,672)</u>	<u>115,712,522</u>
Less accumulated depreciation:				
Land improvements	(1,862,193)	(52,648)	–	(1,914,841)
Buildings, fixed equipment, improvements and infrastructure	(30,829,334)	(1,826,942)	–	(32,656,276)
Equipment and library materials	(17,394,505)	(1,250,976)	137,617	(18,507,864)
Total accumulated depreciation	<u>(50,086,032)</u>	<u>(3,130,566)</u>	<u>137,617</u>	<u>(53,078,981)</u>
Total capital assets being depreciated, net	<u>63,015,295</u>	<u>(377,699)</u>	<u>(4,055)</u>	<u>62,633,541</u>
Total capital assets, net	<u>\$ 68,453,407</u>	<u>\$ 726,697</u>	<u>\$ (4,055)</u>	<u>\$ 69,176,049</u>

University of the Virgin Islands

Notes to Financial Statements (continued)

9. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended September 30, 2013, are as follows:

	Beginning Balance	Additions	Reductions	Amortization	Ending Balance	Less amounts due within one year	Noncurrent liabilities
Notes payable - HBCU	\$ 53,487,271	\$ 4,580,373	\$ 1,721,212	\$ -	\$ 56,346,432	\$ 1,754,846	\$ 54,591,586
Notes payable - other	1,494,862	-	129,085	-	1,365,777	136,189	1,229,588
Loss on refunding	(6,064,775)	-	-	250,362	(5,814,413)	-	(5,814,413)
Total notes payable	48,917,358	4,580,373	1,850,297	250,362	51,897,796	1,891,035	50,006,761
Accrued vacation	4,491,398	1,434,449	1,139,254	-	4,786,593	1,272,653	3,513,940
Other long-term liabilities	763,900	19,600	299,250	-	484,250	201,000	283,250
Total	\$ 54,172,656	\$ 6,034,422	\$ 3,288,801	\$ 250,362	\$ 57,168,639	\$ 3,364,688	\$ 53,803,951

Notes payable are further disclosed below in Note 10.

10. Notes Payable

During fiscal year 2011, the University entered into two capital project loan agreements (loan agreements). Under the loan agreements, the University can request advances up to \$44,000,000 under the Series 2011-2 Bonds and up to \$16,000,000 under the Series 2011-3 Bonds. As of September 30, 2013, the University has requested the maximum allowed therefore no advances were requested under the Series 2011-2, and \$4,580,373 was requested under the Series 2011-3. 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 3.92% on September 30, 2013.

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, 2013, the amount outstanding was \$176,817.

University of the Virgin Islands

Notes to Financial Statements (continued)

10. Notes Payable (continued)

During 1994, the construction of certain academic facilities and a water distribution system was completed by the University. The amounts originally advanced by the United States Department of Education were converted to a note payable at that time. As of September 30, 2013, the amount outstanding was \$1,188,960. 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:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
Year ending September 30,					
2014	\$ 1,891,035	\$	1,873,740	\$	3,764,775
2015	1,946,871		1,815,904		3,762,775
2016	2,028,578		1,736,197		3,764,775
2017	2,054,554		1,671,596		3,726,150
2018	2,104,767		1,602,070		3,706,837
2019-2023	11,647,403		6,886,784		18,534,187
2024-2028	13,029,216		4,827,421		17,856,637
2029-2033	15,253,007		2,528,339		17,781,346
2034-2038	6,216,892		517,571		6,734,463
2039-2042	1,539,886		49,211		1,589,097
Total	<u>\$ 57,712,209</u>	<u>\$</u>	<u>23,508,833</u>	<u>\$</u>	<u>81,221,042</u>

The loan and reimbursement agreements contain various covenants which, among other things, require the University to comply with certain affirmative and negative covenants. At September 30, 2013, the University was in compliance with the required covenants.

11. Leases

The University has several non-cancelable operating leases, primarily for the facilities being used by the University's Small Business Development Center and 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)

11. Leases (continued)

Future minimum lease payments under non-cancelable operating leases as of September 30, 2013, are as follows:

Year ending September 30,	
2014	\$ 143,793
2015	137,468
2016	137,468
2017	18,750
Total minimum lease payments	<u>\$ 437,479</u>

Total rent expense related to these agreements amounted to approximately \$233,942 for the year ended September 30, 2013.

12. Accrued Vacation

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

<u>Length of service</u>	<u>Hours/week</u>	<u>Rate of accrual</u>	<u>Annual accrual</u>
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, 2013, the University had accrued \$4,786,593 for vacation.

University of the Virgin Islands

Notes to Financial Statements (continued)

13. Retirement Plans

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

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

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

Plan members are required to contribute 8.0% of their annual covered salary, and the University is required to contribute 14.5% of the annual covered payroll. The University and the plan member's contributions to TIAA-CREF for the year ending September 30, 2013 were \$2,198,662 and \$1,030,959, respectively.

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

The University contributes to the GERS, a cost-sharing multiple-employer defined benefit pension plan. GERS provides retirement, disability and death benefits to plan members and beneficiaries. The provisions of the Virgin Islands Code, Title 3, Chapter 27 assigns the authority to administer, establish and amend benefit provisions to the GERS Board of Trustees. Complete financial statements of GERS can be obtained directly by contacting the GERS' administrative offices.

Plan members are required to contribute 8.0% if employed prior to October 1, 2005, or 8.5% if employed from October 1, 2005 going forward, or individuals with 30 years or more, effective July 2011, are required to contribute 11.0% of their annual covered salary. The University is required to contribute, as determine by statute, 17.5% of the annual covered payroll. The contribution requirements of plan members and the University are established and may be amended by the statute. The University's contributions to GERS for the years ending September 30, 2013, 2012, and 2011, were \$1,372,722, \$1,378,668, and \$1,441,638, respectively, equal to the required contributions for each year.

University of the Virgin Islands

Notes to Financial Statements (continued)

14. Functional Information

The University's operating expenses by functional classification as of September 30, 2013, were as follows:

Functional classification	Salaries and benefits	Supplies and other services	Scholarships and other services	Utilities	Depreciation	Other expenditures	Total
Instruction	\$ 12,539,470	\$ 1,427,208	\$ 248,107	\$ 37,588	\$ –	\$ 88,671	\$ 14,341,044
Research	4,129,012	4,133,175	179,423	198,364	–	168,028	8,808,002
Public service	4,757,777	1,640,309	1,237,082	74,677	–	178,402	7,888,247
Academic support	3,737,183	1,342,462	237,903	716	–	64,291	5,382,555
Student services	2,467,880	495,432	43,987	1,013,701	–	12,507	4,033,507
Institutional support	6,208,796	6,741,574	2,200	21,577	–	462,740	13,436,887
Operation and maintenance of plant	3,879,551	1,275,410	–	3,457,234	–	38,723	8,650,918
Student aid	197,909	1,750,942	6,896,482	–	–	–	8,845,333
Auxiliary enterprises	1,218,711	4,675,125	130,563	629,643	–	53,285	6,707,327
Depreciation	–	–	–	–	3,130,566	–	3,130,566
Other	–	113,906	–	–	–	–	113,906
	<u>\$ 39,136,289</u>	<u>\$ 23,595,543</u>	<u>\$ 8,975,747</u>	<u>\$ 5,433,500</u>	<u>\$ 3,130,566</u>	<u>\$ 1,066,647</u>	<u>\$ 81,338,292</u>

15. Related Party Transactions

The University is owed approximately \$1.0 million from the 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.

16. Contingencies

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

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

16. Contingencies (continued)

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

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

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

Board of Trustees
University of the Virgin Islands

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the discretely presented component unit of the University of the Virgin Islands (the University) as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 28, 2014.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist, that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2013-001, that we consider to be a significant deficiency.

Compliance and Other Matters

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

University's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

March 28, 2014

Single Audit Report

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

Board of Directors
University of the Virgin Islands

Report on Compliance for Each Major Federal Program

We have audited the University of the Virgin Islands (the University)'s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *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, 2013. The University's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Basis for Adverse Opinion on CFDA 84.378-College Access Challenge Grant Program

As described in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding CFDA 84.378-College Access Challenge Grant program as described in finding 2013-002 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the University to comply with requirements applicable to that program.

Adverse Opinion on CFDA 84.378-College Access Challenge Grant Program

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion paragraph, the University did not comply, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.378-College Access Challenge Grant Program for the year ended September 30, 2013.

Basis for Qualified Opinion on the Research and Development Cluster

As described in the accompanying schedule of findings and questioned costs, the University did not comply with requirements regarding the Research and Development Cluster as described in finding 2013-002 for Subrecipient Monitoring. Compliance with such requirements is necessary, in our opinion, for the University to comply with requirements applicable to that program.

Qualified Opinion on the Research and Development Cluster

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Research and Development Cluster for the year ended September 30, 2013.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs that are identified in the summary of auditors results section of the accompanying schedule of findings and questioned costs for the year ended September 30, 2013.

Other Matters

The results of our auditing procedures disclosed one other instance of noncompliance which is required to be reported in accordance with OMB Circular A-133, and which is described in the accompanying schedule of findings and questioned costs as item 2013-003 related to Student Financial Assistance Cluster for appropriate preparation of the Schedule of Expenditures of Federal Awards. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

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

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and 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 item 2013-002 related to CFDA No. 84.378-College Access Challenge Grant and the Research and Development Cluster for the Subrecipient Monitoring compliance requirement to be a material weakness.

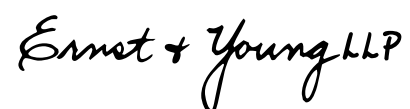
A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2013-003 for the Student Financial Assistance Cluster related to the appropriate preparation of the Schedule of Federal Awards to be a significant deficiency.

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

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

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

We have audited the financial statements of the business-type activities and discretely presented component unit of the University as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements. We have issued our report dated March 28, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



June 25, 2014

University of the Virgin Islands

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2013

Program Title	CFDA Code	Direct Award	Research and Development Cluster	Student Financial Assistance Cluster	College Access Challenge Grant	Higher Education Institutional Aid	Small Business Development Center	Other Programs	Total Federal Expenditures
US Department of Health Human Services									
Minority Health and Health Disparities Research	93.307	Yes	\$ 1,487,634	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,487,634
1 Minority Health and Health Disparities Research	93.307	No	182,344	-	-	-	-	-	182,344
<i>Total Minority Health and Health Disparities Research</i>			1,669,977	-	-	-	-	-	1,669,977
Head Start	93.600	Yes	-	-	-	-	-	34,878	34,878
University Centers for Excellence in Developmental Disabilities Education, Research, and Service	93.632	Yes	-	-	-	-	-	530,899	530,899
ARRA-Trans-NIH Recovery Act Research Support	ARRA-93.701	Yes	52,811	-	-	-	-	-	52,811
Biomedical Research and Research Training	93.859	Yes	599,892	-	-	-	-	-	599,892
2 Family and Community Violence Prevention Program	93.910	No	-	-	-	-	-	495	495
<i>Total US Department of Health and Human Services</i>			2,322,680	-	-	-	-	566,271	2,888,951
US Department of Agriculture									
3 Specialty Crop Block Grant Program - Farm Bill	10.170	No	15,691	-	-	-	-	-	15,691
Payments to Agricultural Experiment Stations Under the Hatch Act	10.203	Yes	1,213,501	-	-	-	-	-	1,213,501
4 Sustainable Agriculture Research and Education	10.215	No	18,235	-	-	-	-	-	18,235
5 Integrated Programs	10.303	No	(3,295)	-	-	-	-	-	(3,295)
Resident Instruction Grants for Insular Area Activities	10.308	Yes	434,354	-	-	-	-	-	434,354
6 Resident Instruction Grants for Insular Area Activities	10.308	No	114,953	-	-	-	-	-	114,953
<i>Total Resident Instruction Grants for Insular Area Activities</i>			549,307	-	-	-	-	-	549,307
7 Specialty Crop Research Initiative	10.309	No	2,437	-	-	-	-	-	2,437
8 Sun Grant Program	10.320	No	12,329	-	-	-	-	-	12,329
Grants for Agricultural Research, Special Research Grants	10.200	Yes	11,737	-	-	-	-	-	11,737
9 Outreach and Assistance for Socially Disadvantaged Farmers and Ranchers	10.443	No	30,806	-	-	-	-	-	30,806
Cooperative Extension Service	10.500	Yes	898,986	-	-	-	-	-	898,986
Cooperative Extension Service	10.500	Yes	-	-	-	-	-	329,753	329,753
10 Cooperative Extension Service	10.500	No	52,169	-	-	-	-	-	52,169
<i>Total Cooperative Extension Service</i>			951,154	-	-	-	-	329,753	1,280,908
Beginning Farmer and Rancher Development Program	10.311	Yes	97,961	-	-	-	-	-	97,961
<i>Total US Department of Agriculture</i>			2,899,864	-	-	-	-	329,753	3,229,618
US Department of Energy									
National Nuclear Security Administration (NNSA) Minority Serving									
11 Institutions (MSI) Program	81.123	No	39,570	-	-	-	-	-	39,570
<i>Total US Department of Energy</i>			39,570	-	-	-	-	-	39,570

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2013

Program Title	CFDA Code	Direct Award	Research and Development Cluster	Student Financial Assistance Cluster	College Access Challenge Grant	Higher Education Institutional Aid	Small Business Development Center	Other Programs	Total Federal Expenditures
US Department of Education									
Federal Supplemental Educational Opportunity Grants	84.007	Yes	–	65,433	–	–	–	–	65,433
12 Special Education--Grants to States (IDEA, Part B)	84.027	No	–	–	–	–	–	10,030	10,030
Federal Work-Study Program	84.033	Yes	–	77,556	–	–	–	–	77,556
Federal Pell Grant Program	84.063	Yes	–	4,999,198	–	–	–	–	4,999,198
Federal Direct Student Loans	84.268	Yes	–	5,245,353	–	–	–	–	5,245,353
Federal Perkins Loans Program	84.038	Yes	–	6,500	–	–	–	–	6,500
Assistive Technology	84.224	Yes	–	–	–	–	–	140,917	140,917
Assistive Technology	84.224C	Yes	–	–	–	–	–	160	160
Higher Education Institutional Aid	84.031	Yes	–	–	–	2,420,021	–	–	2,420,021
13 Impact Aid	84.041	No	–	–	–	–	–	49,032	49,032
College Access Challenge Grant Program	84.378	Yes	–	–	1,478,018	–	–	–	1,478,018
14 National Writing Project	84.928A	No	–	–	–	–	–	11,115	11,115
<i>Total US Department of Education</i>			–	10,394,040	1,478,018	2,420,021	–	211,254	14,503,333
US Department of Housing and Urbanization Development									
Historically Black Colleges and Universities Program	14.520	Yes	–	–	–	–	–	32,025	32,025
<i>Total US Department of Housing and Urbanization Development</i>			–	–	–	–	–	32,025	32,025
US Department of Labor									
Consultation Agreements	17.504	Yes	–	–	–	–	–	382,073	382,073
<i>Total US Department of Labor</i>			–	–	–	–	–	382,073	382,073
US Department of the Interior									
Assistance to State Water Resources Research Institutes	15.805	Yes	57,192	–	–	–	–	–	57,192
Economic, Social, and Political Development of the Territories	15.875	Yes	–	–	–	–	–	174,025	174,025
15 Economic, Social, and Political Development of the Territories	15.875	No	–	–	–	–	–	11,035	11,035
<i>Total Economic, Social, and Political Development of the Territories</i>			–	–	–	–	–	185,060	185,060
Native American Graves Protection and Repatriation Act	15.922	Yes	840	–	–	–	–	–	840
Cooperative Research and Training Programs – Resources of the									
16 National Park System	15.945	No	44,841	–	–	–	–	–	44,841
National Park Service Conservation, Protection, Outreach, and Education	15.954	Yes	17,092	–	–	–	–	–	17,092
<i>Total US Department of the Interior</i>			119,966	–	–	–	–	185,060	305,026
National Aeronautics and Space Administration									
17 Education	43.008	No	12,967	–	–	–	–	–	12,967
<i>Total National Aeronautics and Space Administration</i>			12,967	–	–	–	–	–	12,967

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2013

Program Title	CFDA Code	Direct Award	Research and Development Cluster	Student Financial Assistance Cluster	College Access Challenge Grant	Higher Education Institutional Aid	Small Business Development Center	Other Programs	Total Federal Expenditures
National Science Foundation									
18 Biological Sciences	47.074	No	3,913	-	-	-	-	-	3,913
19 Geosciences	47.050	No	60,791	-	-	-	-	-	60,791
20 Computer and Information Science and Engineering	47.070	No	53,995	-	-	-	-	-	53,995
Education and Human Resources	47.076	Yes	2,953,132	-	-	-	-	-	2,953,132
21 Education and Human Resources	47.076	No	38,744	-	-	-	-	-	38,744
<i>Total Education and Human Resources</i>			2,991,876	-	-	-	-	-	2,991,876
Office of Cyberinfrastructure	47.080	Yes	148,336	-	-	-	-	-	148,336
Office of Experimental Program to Stimulate Competitive Research	47.081	Yes	138,830	-	-	-	-	-	138,830
22 Office of International and Integrative Activities	47.079	No	17,154	-	-	-	-	-	17,154
<i>Total National Science Foundation</i>			3,414,895	-	-	-	-	-	3,414,895
Small Business Administration									
Small Business Development Centers	59.037	Yes	-	-	-	-	747,105	-	747,105
<i>Total Small Business Administration</i>			-	-	-	-	747,105	-	747,105
US Department of Commerce									
23 Sea Grant Support	11.417	No	47,129	-	-	-	-	-	47,129
24 Unallied Science Program	11.472	No	441,036	-	-	-	-	-	441,036
Center for Sponsored Coastal Ocean Research Coastal Ocean Program	11.478	Yes	86,755	-	-	-	-	-	86,755
Marine Fisheries Initiative	11.433	Yes	8,834	-	-	-	-	-	8,834
Coral Reef Conservation Program	11.482	Yes	32,840	-	-	-	-	-	32,840
<i>Total US Department of Commerce</i>			616,594	-	-	-	-	-	616,594
Total Federal Expenditures									
			\$ 9,426,536	\$ 10,394,040	\$ 1,478,018	\$ 2,420,021	\$ 747,105	\$ 1,706,437	\$ 26,172,157

See accompanying notes to schedule of expenditures of federal awards.

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

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

Subrecipient	Amount
1 Yale University	\$ 129,999
Yale University	\$ 52,345
2 Central State University	\$ 495
3 V.I. Dept. of Agriculture	\$ 14,829
V.I. Dept. of Agriculture	\$ 862
4 University of Georgia	\$ 1,250
University of Georgia	\$ 16,985
5 University of Rhode Island	\$ (3,295)
6 University of Puerto Rico	\$ 67,832
University of Puerto Rico	\$ 20,808
University of Guam	\$ 26,313
7 University of Florida	\$ 2,437
8 University of Tennessee	\$ 12,329
9 University of Hawaii	\$ 30,806
10 University of Georgia	\$ 20,940
University of Georgia	\$ 17,129
VI Health Homes Program	\$ (4,700)
Auburn University	\$ 11,006
Kansas State University	\$ 7,793
11 Norfolk State	\$ 39,570
12 V.I. Dept. of Education	\$ 10,030
13 V.I. Dept. of Energy	\$ 49,032
14 University of California	\$ 11,115
15 University of NC-Wilmington	\$ 11,035
16 University of South Carolina	\$ 44,841
17 College of Charleston	\$ 7,592
College of Charleston	\$ 5,375
18 V.I. Dept. of Health	\$ 3,913
19 Cornell University	\$ 45,723
University of Mississippi	\$ 3,816
University of South Florida	\$ 11,252
20 Universidad Metropolitano Ana Mendez University System (\$24,264.56)	\$ 53,995
21 University of Florida	\$ 38,744
22 University of South Florida	\$ 17,154
23 University of Puerto Rico	\$ 47,129
24 Fish & Wildlife Research Institute	\$ 441,036

See accompanying notes to schedule of expenditures of federal awards.

University of the Virgin Islands

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2013

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

During the fiscal year ended September 30, 2013, the University processed \$6,500 of new loans under the Federal Perkins Loan Program (CFDA No. 84.038), which are considered current year federal expenditures and reported in the Schedule of Expenditures of Federal Awards, whereas the outstanding loan balances (as presented below) are not.

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

Beginning Balance at October 1, 2012:	\$117,064
Current year expenditures:	6,500
Current year collections:	(7,777)
Ending Balance at September 30, 2013:	<u>\$115,787</u>

During the fiscal year ended September 30, 2013, the University processed \$5,245,353 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, 2013, relating to this program are considered current year federal expenditures. The new loans made in the fiscal year ended September 30, 013, 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, 2013

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 \$1,188,960

4. Subrecipients

The University provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount disbursed in fiscal year 2013
College Access Challenge Grant Program	84.378	\$1,000,000
Research and Development Cluster	Various	372,730
Total		<u>\$1,372,730</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, 2013

Part I – Summary of Auditors’ Results

Financial Statement Section

Types of Auditor’s Report issued (unmodified, qualified, adverse or disclaimer)..... **Unmodified**

Internal Control over financial reporting:

Material weaknesses identified?..... **No**
 Significant Deficiencies Identified?..... **Yes**
 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
College Access Challenge Grant Program	84.378	Adverse
Higher Education Institutional Aid	84.031	Unmodified
Student Financial Assistance Cluster	Various	Unmodified
Research and Development Cluster	Various	Qualified

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..... **\$785,165**

Auditee qualified as a low-risk auditee **No**

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Section II- Financial Statements Findings

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

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Section II- Financial Statements Findings

Finding Number: 2013-001

Topic

The University's lack of control 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 significant deficiency.

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 2013 audit procedures for the University, we noted deficiencies in the University's financial statement close process as follow:

- Audit/post-closing adjustments 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. These audit adjustments were related to events and transactions in the following areas: cash, accounts receivable, inventories, prepaid expenses, capital assets, accounts payable and accrued liabilities, long-term debt, 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, 2013

Section II- Financial Statements Findings (continued)

Finding Number: 2013-001 (continued)

Condition (continued)

- Inadequate cash reconciliation and cash cut-off procedures resulted in a reclassification of approximately \$4.0 million from cash to accounts receivable, and a reclassification of approximately \$1.2 million from cash to accounts payable. Cash reconciliations were not properly prepared, and certain reconciling items were not properly recorded in the correct period.
- Inadequate controls over the recording and capitalization of assets resulted in a post-closing adjustment of approximately \$1.1 million. Expenses are not properly and timely examined to ascertain if they meet the capitalization criteria.
- The compilation of financial data and reconciliation processes was not completed in a timely manner. The lack of procedures and controls in these areas resulted in inefficiencies during the financial statements preparation process.

Questioned Costs

Not applicable.

Cause

The primary cause of these post-closing entries and audit adjustments was the untimely identification of differences between the balances of the different supporting schedules (reconciliations, 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.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

Section II- Financial Statements Findings (continued)

Finding Number: 2013-001 (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. General ledger accounts support as well as journal entries should be timely reviewed at two levels, and evidenced by supervisory and 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, a level of review needs to be enforced to examine the draft financial statements prepared for correctness of applicable accounting standards, 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.

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 reinforced.

Management's Response

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

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, 2013

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, 2013

Section III- Federal Award Findings and Questioned Costs

Finding Number: 2013-002

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

OMB Circular A-110 (2 CFR part 215) requires 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, 2013

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

Finding Number: 2013-002 (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

College Access Challenge Grant Program (CFDA No. 84.378)

The CACG program of the University of Virgin Islands has only one subrecipient of Federal funds, with a total amount of subaward expenditures of \$1,000,000 for 2013. 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.

Research and Development Cluster Program (Various CFDA numbers)

The Research and Development program of the University of the Virgin Islands has a total of ten (10) subrecipients of Federal Funds, with a total amount of subaward expenditures of \$372,730 for 2013. We selected five (5) of the ten (10) 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)	\$ 372,730

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

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

Finding Number: 2013-002 (continued)

Cause

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

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 as follows:

- 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, 2013

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

Finding Number: 2013-003

Program

Student Financial Audit Cluster (Various CFDA numbers)

Category

Internal Control / Compliance

Criteria

In accordance with OMB Circular A-133 Section .300(b), “the auditee shall maintain internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs” to ensure the entity administering the program is properly reporting federal expenditures.

In addition, OMB Circular A-133 Section 300d requires that the auditee “prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards.” Section .310(b)(3) requires that the auditee “provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.”

Condition

The University failed to include current year expenditures for CFDA 84.268-Federal Direct Student Loan Program in the Schedule of Expenditures of Federal Awards (SEFA), and CFDA 84.038-Federal Perkins Loan Program for the year ended September 30, 2013.

The University understated federal expenditures in total by \$5,251,853 on the SEFA for the year ended September 30, 2013. The University subsequently modified the SEFA to include the programs’ expenditures, thus properly reflecting federal expenditures.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2013

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

Finding Number: 2013-003 (continued)

Questioned Costs

Not Applicable.

Cause

Adequate policies and procedures related to preparation and review of the SEFA are not in place, thus allowing errors to remain undetected.

Effect

Improper reporting on the SEFA could result in inaccurate reporting to cognizant agencies as well as to the Department of Education and inability to accurately determine major program for audit.

Recommendation

We recommend that the University create and implement a review process over the SEFA to ensure proper reporting of all federal expenditures

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, 2013

Finding 2012-03

CFDA	84.378
Name of Federal Program	R&D Cluster College Access Challenge Grant Program Research and Development Cluster Program
Type of Compliance Requirement	Subrecipient Monitoring
Amount of Questioned Cost	CFDA 84.378 - \$1,000,000 R&D Cluster - \$84,124
Contact Person Responsible for Corrective Action Plan	Controller
Status	Recurring (Finding 2013-02).

Finding 2012-04

CFDA	84.031
Name of Federal Program	R&D Cluster Higher Education Institutional Aid Program Research and Development Cluster Program
Type of Compliance Requirement	Procurement, Suspension and Debarment
Amount of Questioned Cost	Not Applicable
Contact Person Responsible for Corrective Action Plan	Controller
Status	Corrected.

University of the Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Year Ended September 30, 2013

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	Corrected.

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 costs/cost principles-Time and effort reporting
Amount of Questioned Cost	None
Contact Person Responsible for Corrective Action Plan	Controller
Status	Corrected.

Finding 2011-09

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

University of the Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Year Ended September 30, 2013

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	Corrected.
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	Corrected.
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	Corrected.

University of the Virgin Islands

Summary Schedule of Prior Audit Findings (continued)

Year Ended September 30, 2013

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	Corrected.

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	Corrected.

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 2013-02.

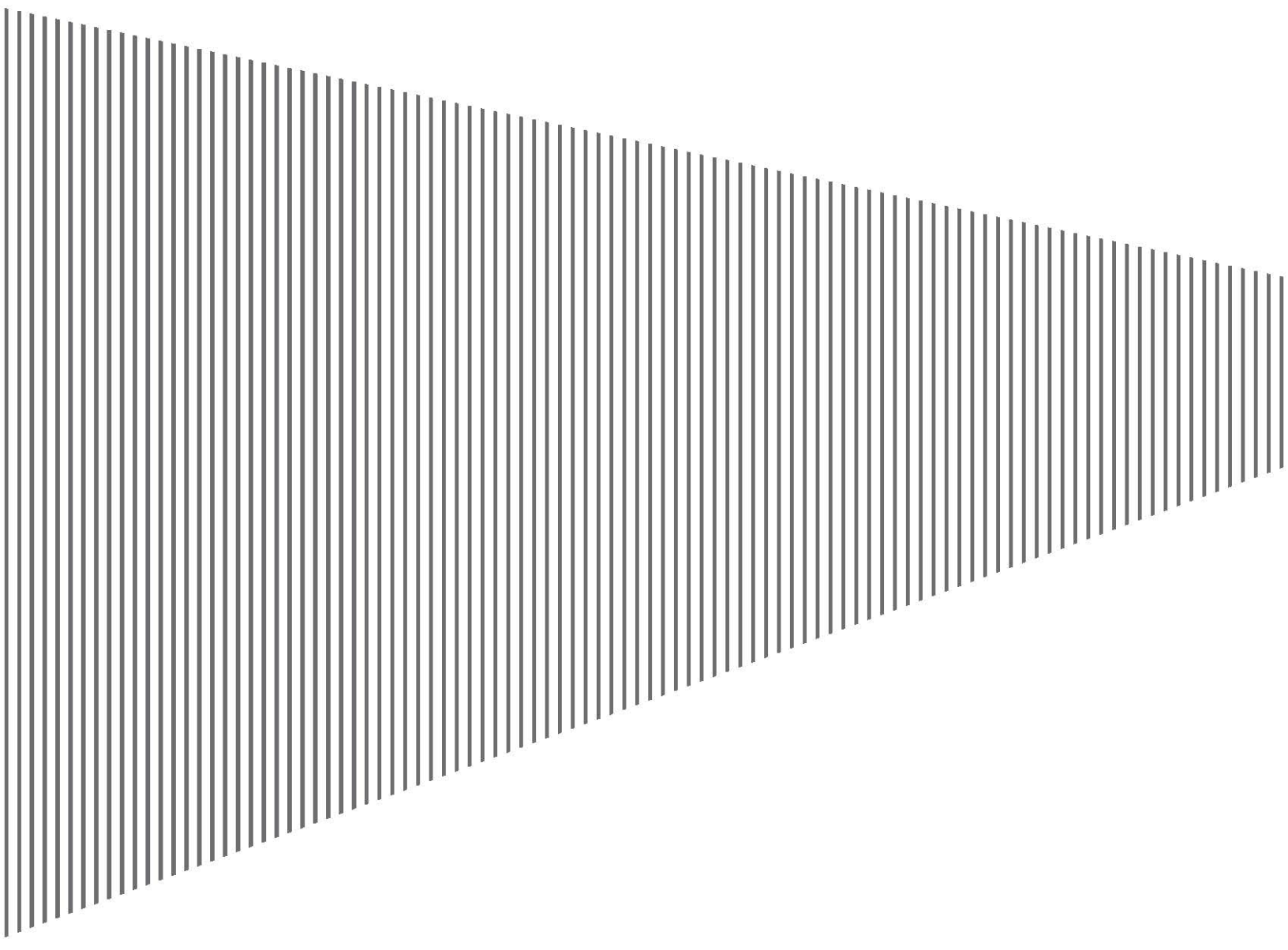
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University of the Virgin Islands

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Accounting Department

Corrective Action Plan for the Fiscal Year 2013 Single Audit

Corrective Action Plan

For the Fiscal Year 2013 Single Audit

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Corrective Action Plan

For the Fiscal Year 2013 Single Audit

Finding Number: 2013-002

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

OMB Circular A-110 (2 CFR part 215) requires 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.

Corrective Action Plan (continued)

For the Fiscal Year 2013 Single Audit

Finding Number: 2013-002 (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

College Access Challenge Grant Program (CFDA No. 84.378)

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.

Research and Development Cluster Program (Various CFDA numbers)

The Research and Development program of the University of the Virgin Islands has a total of ten (10) subrecipients of Federal Funds, with a total amount of subaward expenditures of \$372,730 for 2013. We selected five (5) of the ten (10) 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)	\$ 372,730

Cause

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

Corrective Action Plan (continued)

For the Fiscal Year 2013 Single Audit

Finding Number: 2013-002 (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 as follows:

- 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. The accounting office has developed a sub-recipient monitoring policy which will be reviewed and approved within the next few months by the University's Board of Trustees. Based upon that policy, the Principal Investigators' of the individual grants will be required to submit their individual procedures for subrecipient monitoring to the Office of Sponsored Programs and Accounting.

Corrective Action Plan (continued)

For the Fiscal Year 2013 Single Audit

Finding Number: 2013-003

Program

Student Financial Audit Cluster (Various CFDA numbers)

Category

Internal Control / Compliance

Criteria

In accordance with OMB Circular A-133 Section .300(b), “the auditee shall maintain internal controls over federal programs that provide reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs” to ensure the entity administering the program is properly reporting federal expenditures.

In addition, OMB Circular A-133 Section 300d requires that the auditee “prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards.” Section .310(b)(3) requires that the auditee “provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.”

Condition

During our audit of the Schedule of Expenditures of Federal Awards (SEFA) for the University, we noted that there were no formalized review procedures in place regarding completeness and accuracy of SEFA expenditures. Additionally, the University failed to include current year expenditures for CFDA 84.268-Federal Direct Student Loan program, and CFDA 84.038-Federal Perkins Loan Program for the year ended September 30, 2013.

The University understated federal expenditures by \$5,251,853 on the SEFA for the year ended September 30, 2013. The University subsequently modified the SEFA to include the programs’ expenditures, thus properly reflecting federal expenditures.

Corrective Action Plan (continued)

For the Fiscal Year 2013 Single Audit

Finding Number: 2013-003 (continued)

Questioned Costs

Not Applicable.

Cause

Adequate policies and procedures related to preparation and review of the SEFA are not in place, thus allowing errors to remain undetected.

Effect

Improper reporting on the SEFA could result in inaccurate reporting to cognizant agencies as well as to the Department of Education and inability to accurately determine major program for audit.

Recommendation

We recommend that the University create and implement a review process over the SEFA to ensure proper reporting of all federal expenditures

Management's Response and Planned Corrective Actions

The University concurs with this finding. The University has standard procedures in place regarding completeness and accuracy of the SEFA. An error was made this year with the loan awards amount not being included. Going forward, the Accounting Office and the Office of Sponsored Programs will ensure that all the grants CFDA numbers and amounts will be complete and accurate in the SEFA.