

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

University of the Virgin Islands
Year Ended September 30, 2014

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, 2014

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Financial Statements



Ernst & Young LLP
Plaza 273, Suite 1000
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, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the discretely presented component unit of the University as of September 30, 2014, 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.



Adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*

As discussed in Note 1 to the financial statements, the University changed its method for accounting of bond issuance costs and deferred losses related to bond refunding as a result of the adoption of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective October 1, 2013. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis on pages 3 - 19 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 31, 2015, 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 31, 2015

University of the Virgin Islands
Management's Discussion and Analysis

Year Ended September 30, 2014

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, 2014, with selected comparative information for the year ended September 30, 2013. This discussion also includes some of management's insights and analysis of the University's financial performance for the year. The discussion and analysis is designed to focus on current activities, resulting changes and current known facts. The financial statements, footnotes and this discussion are the responsibility of management.

The financial reporting entity consists of the University and its component units which are legally separate organizations for which the University is financially accountable. The primary government consists of the University and its 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. Complete financial statements of the Foundation can be obtained by contacting the University's administrative offices.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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

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

Reporting Entity

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

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

Overview of the Basic Financial Statements

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

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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 following statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB) were effective during the University's fiscal year 2014:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB Statement No. 65)
- GASB 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62* (GASB Statement No. 66)

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

- GASB 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* (GASB Statement No. 67)
- GASB 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees* (GASB Statement No. 70)

The University has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2014. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this Statement requires that the deferred loss on refunding, previously reported as a reduction to the long-term debt, should be presented as a deferred outflow of resources in the statement of net position. The statement also requires that the debt issuance costs should be reported as an expense in the period incurred. The unamortized debt issuance costs previously presented as other assets in the statements of net position should be written off as an adjustment to the beginning net position as follows:

| | |
|---|----------------------------|
| Net position, October 1, 2013, as previously reported | \$68,456,790 |
| Adjustment required to adopt GASB No. 65 | (1,063,380) |
| Net position, October 1, 2013, <i>as adjusted</i> | <u><u>\$67,393,410</u></u> |

As a result of the adoption of GASB Statement No. 65, we have adjusted the related prior year balances for comparative purposes.

The objective of GASB Statement No. 66 is to improve the accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The adoption of this statement had no impact on the University's financial statements.

The objective of GASB Statement No. 67 is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to define contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. This statement had no impact on the University's financial statements as it is applicable to state and local governmental pension plans.

GASB Statement No. 70 enhances comparability of financial statements among governments by requiring consistent reporting by those governments that extend non-exchange financial guarantees and by those governments that receive non-exchange financial guarantees. This Statement will also improve the information disclosed about a government's obligations and risk exposure from extending non-exchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. The adoption of this statement had no impact on the University's financial statements.

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

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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 deferred outflows of resources, and total liabilities and deferred inflows of resources, net position, is one indicator of the current financial condition of the University.

| | Fiscal Year 2014 | Fiscal Year 2013 | \$ Change |
|---|-----------------------------|-----------------------------|------------------|
| | | <i>As adjusted</i> | |
| Assets | | | |
| Current assets | \$ 19,745,559 | \$ 25,582,949 | \$ (5,837,390) |
| Noncurrent assets | | | |
| Capital assets, less accumulated depreciation | 69,542,797 | 69,176,049 | 366,748 |
| Other | 40,525,075 | 38,612,144 | 1,912,931 |
| Total assets | 129,813,431 | 133,371,142 | (3,557,711) |
| Deferred outflows of resources | 5,564,049 | – | 5,564,049 |
| Liabilities | | | |
| Current liabilities | 11,472,837 | 12,173,781 | (700,944) |
| Noncurrent liabilities | 57,288,076 | 53,803,951 | 3,484,125 |
| Total liabilities | 68,760,913 | 65,977,732 | 2,783,181 |
| Total net position | \$ 66,616,567 | \$ 67,393,410 | \$ (776,843) |

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 \$19.7 million cover the current liabilities of \$11.5 million. The current ratio decreased to 1.7 in fiscal year 2014 from 2.1 in fiscal year 2013. The reason for this decrease is primarily due to the reduction in accounts receivable.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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 \$2.3 million in the noncurrent assets primarily due to the acquisition of new endowment investments at fair value of approximately \$2.0 million.

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 \$3.4 million in fiscal year 2014 and \$3.9 million in fiscal year 2013.

During fiscal year 2014, the University received a total of 65 acres of vacant land as a charitable gift. The property, valued at \$1.3 million, is located between Estates Pearl and the Atlantic Ocean and includes approximately 1,700 feet of water frontage. The \$3.4 million in capital assets additions includes the \$1.3 million for the donated land.

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 2014 and 2013.

Deferred outflows of resources

The adoption of GASB Statement No. 65 required that the deferred loss on refunding, previously reported as a reduction to the long-term debt, should be presented as a deferred outflow of resource in the statement of net position.

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 \$11.5 million on September 30, 2014, as compared to \$12.2 million on September 30, 2013. The overall decrease of \$0.7 million in current liabilities is mainly related to the reduction of accrued payables.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

Noncurrent Liabilities, including Long-Term Debt

Noncurrent liabilities consist of long-term debt and other obligations for which the principal is due more than one year from the statement of net position date. Noncurrent liabilities increased by \$3.5 million in fiscal year 2014. The increase occurred mainly due to the reclassification of the deferred loss on refunding from this section to the deferred outflows of resources section. Before GASB 65, the deferred loss on refunding was considered a reduction to the long-term debt. With the implementation of GASB 65, the deferred loss on refunding was recorded as a deferred outflow of resources and amortized annually.

Under the loan agreements, the University could request advances up to \$44 million under the Series 2011-2 Bonds and up to \$16 million under the Series 2011-3 Bonds. All funds were drawn from both loan agreements during fiscal year 2013; therefore no advances were requested on any of the Series 2011-2 or 2011-3 in fiscal year 2014.

Net Position

Net position represents the residual interest in the University's assets after liabilities are deducted. Total net position at September 30, 2014 and 2013 were \$66.6 million and \$67.4 (*as adjusted*), respectively. The University's net positions at September 30, 2014 and 2013 are summarized as follows:

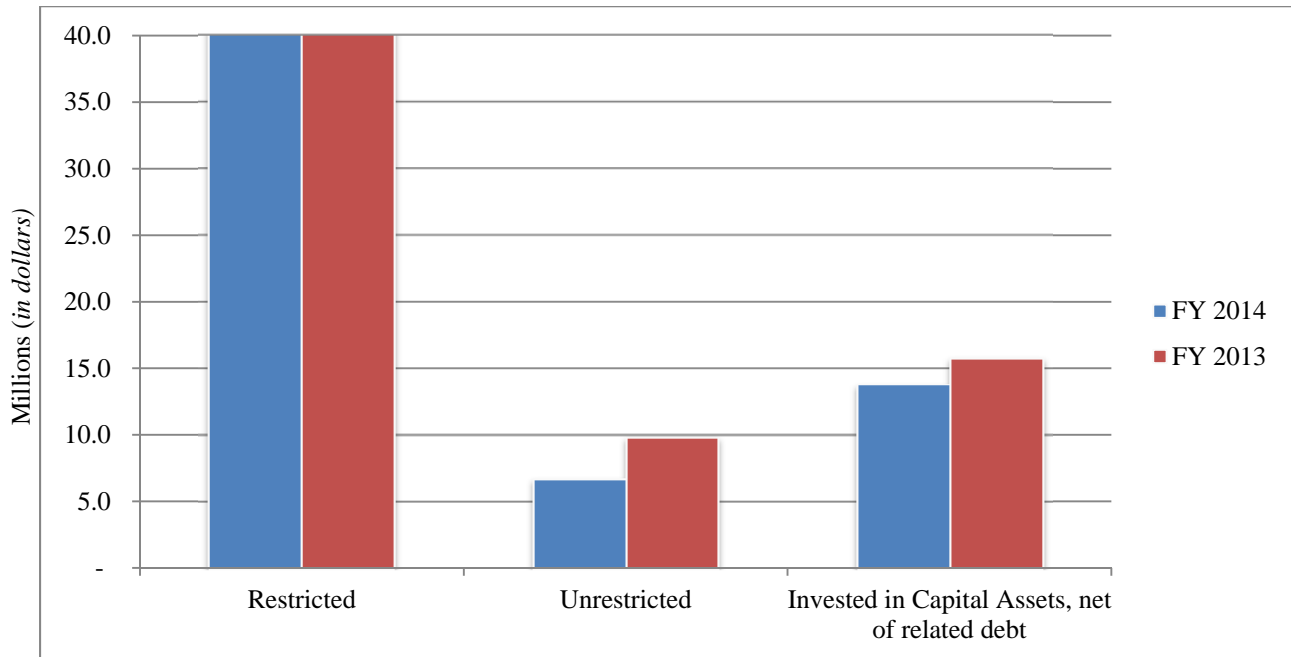
| | Fiscal Year 2014 | Fiscal Year 2013 |
|----------------------------------|-----------------------------|-----------------------------|
| Net position: | | <i>As adjusted</i> |
| Restricted | \$ 46,121,720 | \$ 41,769,503 |
| Unrestricted | 6,723,219 | 9,819,307 |
| Net investment in capital assets | 13,771,628 | 15,804,600 |
| Total net position | \$ 66,616,567 | \$ 67,393,410 |

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

Net Position (continued)



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

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

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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.

Statement of Revenues, Expenses and Changes in Net Position

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

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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, 2014 and 2013, follows:

| | Fiscal Year 2014 | Fiscal Year 2013 | \$ Change |
|---|----------------------|---------------------|--------------|
| | <i>As adjusted</i> | | |
| Operating revenues: | | | |
| Tuition and fees, net of scholarship allowance | \$ 14,323,732 | \$ 14,219,843 | \$ 103,889 |
| Grants and contracts | 18,688,324 | 19,754,533 | (1,066,209) |
| Auxiliary enterprises | 3,040,995 | 3,030,388 | 10,607 |
| Other operating revenues | 447,334 | 329,942 | 117,392 |
| Total operating revenues | 36,500,385 | 37,334,706 | (834,321) |
| Operating expenses | 78,643,325 | 81,338,292 | (2,694,967) |
| Operating loss | (42,142,940) | (44,003,586) | 1,860,646 |
| Nonoperating revenues (expenses): | | | |
| Local government appropriation | 26,524,621 | 24,886,663 | 1,637,958 |
| Federal Pell Grant Program | 5,182,654 | 4,999,198 | 183,456 |
| Other non-operating income | 6,562,313 | 4,700,825 | 1,861,488 |
| Interest on indebtedness | (2,195,696) | (3,209,992) | 1,014,296 |
| Net non-operating revenues | 36,073,892 | 31,376,694 | 4,697,198 |
| Loss before other revenues | (6,069,048) | (12,626,892) | 6,557,844 |
| Capital appropriations | 3,992,205 | 3,992,205 | - |
| Capital contribution | 1,300,000 | 747,000 | 553,000 |
| Change in net position | (776,843) | (7,887,687) | 7,110,844 |
| Net position: | | | |
| Net position at beginning of year, <i>as adjusted</i> | 67,393,410 | 75,281,097 | (7,887,687) |
| Net position at end of year | \$ 66,616,567 | \$ 67,393,410 | \$ (776,843) |

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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. The fiscal year 2014 appropriations increased by 7% 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 2014 had an increase in net tuition and fees of \$0.1 million. Local government appropriations increased by \$1.6 million due mainly to the increase for restoring the 8% reduction in employee's salaries from previous years. The University continues to foster a strong relationship and partnership with the local government and recognizes the importance of its continued support.

The \$1.1 million decrease in grants and contracts is related to a decrease in the number of grants awarded and received during fiscal year 2014, when compared to fiscal year 2013. The largest decrease of grants not awarded and received during fiscal year 2014 was EPSCoR grant.

Auxiliary enterprises include the revenue derived from bookstores sales, residence halls and campus housing fees, Wellness Center membership fees, and ticket and concession stand sales. There was no significant increase in this area.

Other non-operating revenues consist of investment income and gifts which continue to increase due to improving conditions in the marketable securities area. Other revenues consist mainly of capital appropriations received from the Government to meet outstanding capital debt obligations, and a capital contribution which represents the 65 acres of vacant land the University received as a charitable gift, valued at \$1.3 million. During fiscal year 2013, the University also received a vacant land located at St. John valued at \$0.7 million.

For fiscal year 2014, operating expenses totaled \$78.6 million including compensation and benefits of \$40.2 million, supplies and other expenditures of \$20.7 million, depreciation expense of \$3.1 million, scholarships of \$9.1 million, and utilities of \$5.5 million.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

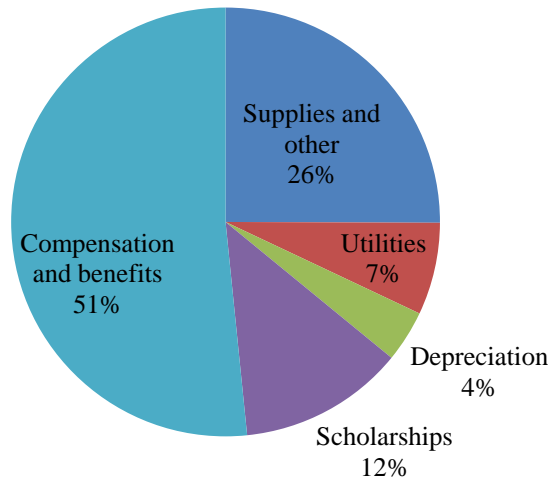
Year Ended September 30, 2014

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

A comparative summary of the University's operating expenses by object categories for the years ended September 30, 2014 and 2013 is as follows:

| | Fiscal Year 2014 | Fiscal Year 2013 |
|---------------------------------|-----------------------------|-----------------------------|
| Compensation and benefits | \$ 40,235,083 | \$ 39,136,289 |
| Supplies and other | 20,737,536 | 24,662,190 |
| Depreciation | 3,051,168 | 3,130,566 |
| Scholarships | 9,121,012 | 8,975,747 |
| Utilities | 5,498,526 | 5,433,500 |
| Total operating expenses | \$ 78,643,325 | \$ 81,338,292 |

Comparative Summary of Operating Expenses



University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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 increase in compensation and benefits was due to the restoration of the 8% reduction employees had for 2 years.

Supplies and other expenses decreased due to the absence of repair and maintenance work performed on the University's capital assets, and the absence of the payment of \$2.0 million made during fiscal year 2013 to the University of the Virgin Islands Research and Technology Park Corporation (RT Park) 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, 2014 and 2013, is as follows:

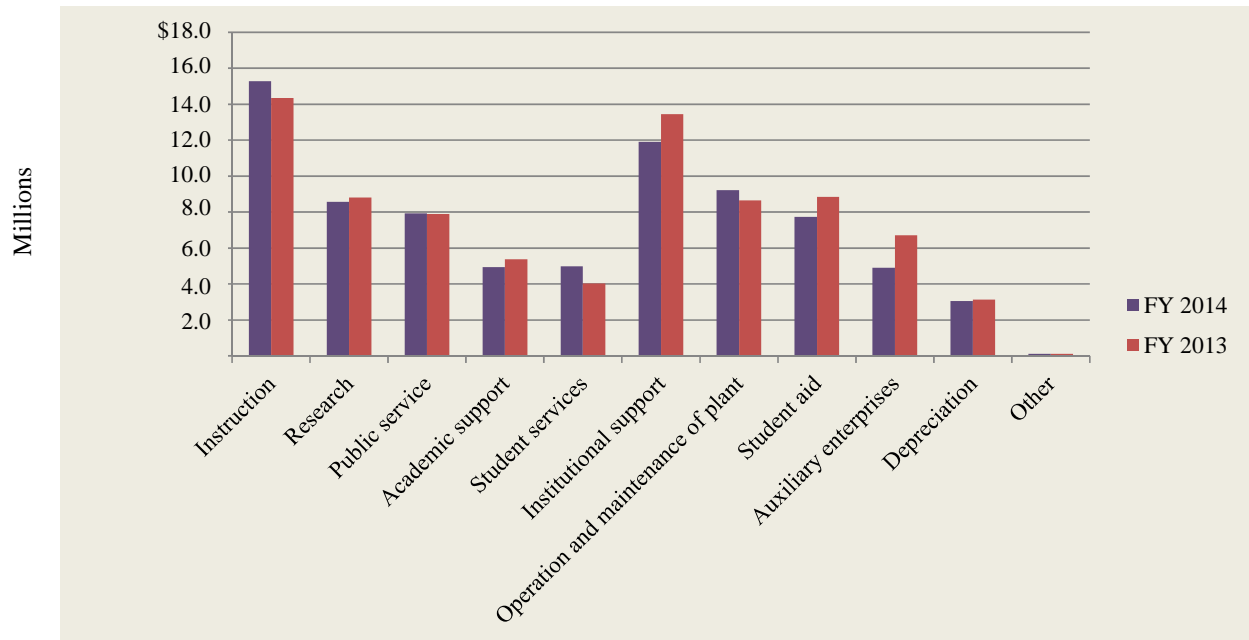
| | Fiscal Year 2014 | Fiscal Year 2013 |
|------------------------------------|-----------------------------|-----------------------------|
| Function: | | |
| Instruction | \$ 15,281,065 | \$ 14,341,044 |
| Research | 8,578,479 | 8,808,002 |
| Public service | 7,929,719 | 7,888,247 |
| Academic support | 4,943,794 | 5,382,555 |
| Student services | 4,979,476 | 4,033,507 |
| Institutional support | 11,905,007 | 13,436,887 |
| Operation and maintenance of plant | 9,216,787 | 8,650,918 |
| Student aid | 7,737,420 | 8,845,333 |
| Auxiliary enterprises | 4,901,246 | 6,707,327 |
| Depreciation | 3,051,168 | 3,130,566 |
| Other | 119,164 | 113,906 |
| Total expenses by function | \$ 78,643,325 | \$ 81,338,292 |

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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



Expenditure programs with the increases were the instruction, public service, student services and operation and maintenance of plant due mainly to a full year of the restoration of the 8% salary reduction of prior years. The expenditures with the decreases are research, academic support, institutional support, student aid, auxiliary and depreciation. There were reductions in contracts for the research area and reduction in salaries in the Student Services area due to positions not being filled. Student aid was also down due to food services contracts being lower and auxiliary enterprises were down due to the increase in insurance during fiscal year 2013 which was lower in fiscal year 2014. The reduction in the institutional support was due mainly to the reduction in the RT Park contribution, which was completed in fiscal year 2013.

Factors Impacting Future Periods

During fiscal year 2014, the University continued to feel 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 and decline in student enrollment.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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. The University continues to use its resources effectively to promote academic quality and excellence, student development and success, organizational and human development, modern and safe university environment, financial sustainability and growth, and community engagement and globalization. The more significant accomplishments of the strategic plan during the 2013-2014 period that will impact future periods include:

- A Comprehensive Recruitment Plan to increase student enrollment by engaging all stakeholders within the University was developed. The document was also distributed to the campus community in November 2013.
- The Enrollment Advisory Committee was appointed by President Hall in January 2014. The committee has the responsibility of ensuring that important aspects of the plan are thoroughly being carried out. These activities, coupled with numerous other individual and group initiatives, have resulted in a 16.6% increase in freshmen applications and a 35% increase in newly accepted freshmen.
- New Centers and initiatives have been developed to align with regional needs:
 - Caribbean Center for Green Technology
 - Center for the Study of Spirituality and Professionalism
 - Institute for Leadership and Organizational Effectiveness
 - Virgin Islands Caribbean and Cultural Center
 - Center for Complementary and Alternative Medicine
 - Center for Student Success
 - Anti-Violence and Peace Initiative
 - UVI Goes Green
- The School of Business received initial accreditation from the Accreditation Council of Business Schools and Programs (ACBSP).
- The Board approved creating a Liaison Committee for Medical Education (LCME) accredited medical school. If successful, the University would be the only English speaking accredited medical school in the Caribbean.
- The University received a successful Middle States Commission on Higher Education (MSCHE) periodic review, with no requests for more information or corrective actions.
- In an effort to develop a system of benchmarks and metrics for program rationalization and assessment of academic, administrative, and support units, a consultant was retained to conduct the UVI-Next: Academic Programs and Administrative Programs Transformation Study with the assistance of two internal taskforces. The report was submitted and circulated through the shared governance process for review. The initial

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

draft of the report was reviewed by the faculty and staff and appropriate adjustments were made to the document. The final report, together with recommendations for consideration and implementation, were submitted to the full Board at the June Annual Board Retreat. The revised recommendations were approved by the Board at its June 2014 meeting.

- Enhanced Institutional Advancement:
 - The University became the first HBCU to reach the 50% mark in alumni contribution rates. Our “First to Fifty” campaign exceeded the goal by getting 51.73% of our alumni to contribute to the University during the 2013 fiscal year.
 - Launched the quiet phase of a \$25 million Capital Campaign.
- Entered into a Purchase Power Agreement (PPA) that permits UVI to purchase 50% of its energy needs from solar energy, saving the University approximately \$1.3 million per year in the early years of this twenty year agreement.
- Secured a \$30 million Gift Agreement for the development of a Medical School at the University (the largest gift in the history of the University).
- The University secured its first \$20 million competitive five year grant from the National Science Foundation for the EPSCoR Program.
- Secured a \$700,000 annual debt service commitment from the Governor to construct the Medical School facilities. This should result in the construction of buildings ranging from \$11 to \$13 million in value.
- Taskforces on improving education across the USVI territory and improving retention and graduation rates with a focus on:
 - Upgrading and certifying teachers
 - Providing other professional development activities
 - Working with the school system to improve the overall quality of education across the USVI territory, thus helping to bring better prepared students to the University and increasing retention and graduation rates
- Redesigned and implemented a new University website:
 - The University's official social media presence has increased by 300 percent with the addition of LinkedIn, Instagram and Twitter. Utilizing social media has given the University a greater reach locally and globally.
- Conducted a comprehensive branding study linked to increasing the market reach of the University locally, regionally, and internationally and to develop a new “tag line”, mascot, marketing materials and a comprehensive marketing strategy.

University of the Virgin Islands

Management's Discussion and Analysis (continued)

Year Ended September 30, 2014

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, 2014

| | University | Component Unit |
|---|-------------------|---------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 12,386,559 | \$ 329,927 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,233,968 | 5,979,566 | – |
| Inventories | 694,595 | – |
| Prepaid expenses and other current assets | 684,839 | – |
| Total current assets | 19,745,559 | 329,927 |
| Noncurrent assets: | | |
| Restricted cash and cash equivalents | 80,826 | – |
| Restricted deposits with trustee | 4,236,901 | – |
| Students loans receivable, net of allowance for doubtful accounts of \$327,454 | 269,589 | – |
| Investments at fair value | – | 11,966,898 |
| Restricted investments at fair value | 35,937,759 | – |
| Capital assets, net | 69,542,797 | – |
| Total noncurrent assets | 110,067,872 | 11,966,898 |
| Total assets | 129,813,431 | 12,296,825 |
| Deferred outflows of resources | | |
| Deferred loss resulting from debt refinancing | 5,564,049 | – |
| Liabilities | | |
| Current liabilities: | | |
| Excess of outstanding checks over bank balance | 455,409 | – |
| Accounts payable and accrued liabilities | 3,796,312 | – |
| Due to the University | – | 125,000 |
| Deferred revenue | 3,913,008 | – |
| Current portion of long-term liabilities | 3,308,108 | – |
| Total current liabilities | 11,472,837 | 125,000 |
| Noncurrent liabilities: | | |
| Long-term debt | 53,874,302 | – |
| Accrued vacation | 3,196,774 | – |
| Other long-term liabilities | 217,000 | – |
| Total noncurrent liabilities | 57,288,076 | – |
| Total liabilities | 68,760,913 | 125,000 |

(Continued)

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

September 30, 2014

| | University | Component Unit |
|---|---------------|-------------------|
| Net position | | |
| Invested in capital assets, net of related debt | 13,771,628 | – |
| Restricted nonexpendable | 9,808,994 | – |
| Restricted expendable: | | |
| Grants | 24,086,621 | – |
| Scholarships | 7,997,549 | – |
| Loans | 891,675 | – |
| Debt service | 2,631,806 | – |
| Other | 705,075 | – |
| Unrestricted | 6,723,219 | 12,171,825 |
| Total net position | \$ 66,616,567 | \$ 12,171,825 |

See accompanying notes.

University of the Virgin Islands

Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2014

| | University | Component Unit |
|---|-------------------|---------------------------|
| Revenues | | |
| Operating revenues: | | |
| Tuition and fees (net of scholarship allowance of \$272,494) | \$ 14,323,732 | \$ — |
| Federal grants and contracts | 16,334,667 | — |
| State grant and contracts | 2,353,657 | — |
| Auxiliary enterprises | 3,040,995 | — |
| Other | 447,334 | — |
| In-kind contribution | — | 191,660 |
| Total operating revenues | 36,500,385 | 191,660 |
| Expenses | | |
| Salaries: | | |
| Faculty | 9,693,625 | — |
| Exempt staff | 12,971,382 | — |
| Nonexempt wages | 8,434,083 | — |
| Benefits | 9,135,993 | — |
| Scholarships | 9,121,012 | — |
| In-kind contribution | — | 175,459 |
| Contributions to the University | — | 500,000 |
| Utilities | 5,498,526 | — |
| Supplies and other services | 19,634,867 | 78,470 |
| Depreciation | 3,051,168 | — |
| Other expenses | 1,102,669 | — |
| Total operating expenses | 78,643,325 | 753,929 |
| Operating loss | (42,142,940) | (562,269) |

(Continued)

University of the Virgin Islands

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

Year Ended September 30, 2014

| | University | Component Unit |
|--|-------------------|---------------------------|
| Nonoperating revenues (expenses): | | |
| Local government appropriation | 26,524,621 | – |
| Federal Pell Grant Program | 5,182,654 | – |
| Gifts | 2,095,669 | – |
| Net investment income | 4,466,644 | 1,352,206 |
| Interest on indebtedness | (2,195,696) | – |
| Total nonoperating revenues, net | 36,073,892 | 1,352,206 |
| (Decrease) increase in net position before other revenues | (6,069,048) | 789,937 |
| Capital appropriations | 3,992,205 | – |
| Capital contribution | 1,300,000 | – |
| (Decrease) increase in net position | (776,843) | 789,937 |
| Net position at beginning of year, <i>as adjusted</i> | 67,393,410 | 11,381,888 |
| Net position at end of the year | \$ 66,616,567 | \$ 12,171,825 |

See accompanying notes.

University of the Virgin Islands

Statement of Cash Flows

Year Ended September 30, 2014

| | University |
|---|-------------------|
| Cash flows from operating activities | |
| Tuition and fees | \$ 14,621,255 |
| Grants and contracts | 24,900,174 |
| Auxiliary enterprises and other | 3,597,712 |
| Payments to suppliers and vendors | (21,522,606) |
| Payments to employees | (31,098,095) |
| Payments for utilities | (5,498,526) |
| Payments for benefits | (9,465,194) |
| Payments for scholarships | (9,121,012) |
| Net cash used in operating activities | (33,586,292) |
| Cash flows from noncapital financing activities | |
| Local government appropriations | 26,524,621 |
| Federal Pell Grant Program | 5,182,654 |
| Endowment gifts | 1,810,496 |
| Gifts and grants for other than capital purposes | 285,173 |
| Net cash provided by noncapital financing activities | 33,802,944 |
| Cash flows from capital and related financing activities | |
| Capital appropriations | 3,992,205 |
| Net purchases of capital assets | (2,133,147) |
| Principal paid on capital debt | (1,891,036) |
| Interest paid on capital debt | (1,960,041) |
| Increase in deposits held with bond trustees | (120,667) |
| Net cash used in capital and related financing activities | (2,112,686) |
| Cash flows from investing activities | |
| Proceeds from sales and maturities of investments | 6,214,982 |
| Investment income | 895,908 |
| Purchases of investments | (4,625,646) |
| Net cash provided by investing activities | 2,485,244 |
| Net change in cash and cash equivalents | 589,210 |
| Cash and cash equivalents at beginning of year | 11,878,175 |
| Cash and cash equivalents at end of year | \$ 12,467,385 |

(Continued)

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

Year Ended September 30, 2014

| | University |
|--|-------------------|
| Reconciliation of net operating loss to net cash used in operating activities | |
| Operating loss | \$ (42,142,940) |
| Adjustments to reconcile operations loss to net cash used in operating activities: | |
| Depreciation | 3,051,168 |
| Changes in assets and liabilities, net: | |
| Grants and contracts receivables | 6,211,850 |
| Student receivables | 150,479 |
| Other accounts receivables | 109,383 |
| Inventories | 215,116 |
| Prepaid expenses and other current assets | (55,862) |
| Excess of outstanding checks over bank balance | 154,148 |
| Accounts payable and accrued liabilities | (1,097,477) |
| Deferred revenue | 147,043 |
| Accrued vacation | (329,200) |
| Net cash used in operating activities | \$ (33,586,292) |
| Supplemental schedule of noncash capital and financing activities | |
| Donated land | \$ 1,300,000 |
| Change in investment value | \$ 3,570,766 |

See accompanying notes.

University of the Virgin Islands

Notes to Financial Statements

September 30, 2014

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

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

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

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

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

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

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 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)

September 30, 2014

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

Reporting Entity (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 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)

September 30, 2014

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)

September 30, 2014

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.

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, 2014. 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: | <u>Capitalization Threshold</u> |
|---|--|
| Land | \$ 1 |
| Land improvements | 1 |
| New buildings | 1 |
| Betterment and improvement of buildings | 10,000 |
| Infrastructure | 10,000 |
| Machinery and equipment | 2,500 |
| Library collection | 1 |
| Computer software | 50,000 |

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

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

Deferred Loss resulting from Debt Refinancing and Debt Issuance Costs

Loss resulting from debt refinancing 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 deferred outflow of resources in the statement of net position.

Debt issuance costs should be reported as an expense in the period incurred.

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, 2014, approximately \$3,913,008 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.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

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

Net Position (continued)

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

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

Classification of Revenues and Expenses

The University has classified its revenues and expenses as either operating or non-operating. Operating revenues include activities that have the characteristics of exchange transactions such as student tuition and fees, net of scholarship discounts and allowances; sales and services of auxiliary enterprises; and some Federal, state and local grants and contracts.

Non-operating revenues include activities that have the characteristics of non-exchange transactions, and other revenue sources that are defined as non-operating revenues by GASB Statement No. 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)

September 30, 2014

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

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.

New Accounting Standards Adopted

The following statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB) were effective during the University's fiscal year 2014:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB Statement No. 65)

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

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

New Accounting Standards Adopted (continued)

- GASB 66, *Technical Corrections-2012-an amendment of GASB Statements No. 10 and No. 62* (GASB Statement No. 66)
- GASB 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* (GASB Statement No. 67)
- GASB 70, *Accounting and Financial Reporting for Non-exchange Financial Guarantees* (GASB Statement No. 70)

The University has implemented GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in fiscal year 2014. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this Statement requires that the deferred loss on refunding, previously reported as a reduction to the long-term debt, should be presented as a deferred outflow of resource in the statement of net position. The statement also requires that the debt issuance costs should be reported as an expense in the period incurred. The unamortized debt issuance costs previously presented as other assets in the statements of net position should be written off as an adjustment to the beginning net position as follows:

| | |
|---|----------------------------|
| Net position, October 1, 2013, as previously reported | \$68,456,790 |
| Adjustment required to adopt GASB No. 65 | <u>(1,063,380)</u> |
| Net position, October 1, 2013, <i>as adjusted</i> | <u><u>\$67,393,410</u></u> |

The objective of GASB Statement No. 66 is to improve the accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement also amends Statement 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

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

New Accounting Standards Adopted (continued)

rate differs significantly from a current (normal) servicing fee rate. These changes clarify how to apply Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. The adoption of this statement had no impact on the University's financial statements.

The objective of GASB Statement No. 67 is to improve financial reporting by state and local governmental pension plans. This Statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to define contribution plans that provide postemployment benefits other than pensions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013. This statement had no impact on the University's financial statements as it is applicable to state and local governmental pension plans.

GASB Statement No. 70 enhances comparability of financial statements among governments by requiring consistent reporting by those governments that extend non-exchange financial guarantees and by those governments that receive non-exchange financial guarantees. This Statement will also improve the information disclosed about a government's obligations and risk exposure from extending non-exchange financial guarantees. The provisions of this Statement are effective for reporting periods beginning after June 15, 2013. The adoption of this statement had no impact on the University's financial statements.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

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 the University's subsequent fiscal year:

| Statement Number | | Adoption Required in Fiscal Year |
|-------------------------|--|---|
| 68 | <i>Accounting and Financial Reporting for Pensions-an amendment of GASB Statement No. 27 (GASB Statement No. 68)</i> | 2015 |
| 69 | <i>Government Combinations and Disposals of Government Operations (GASB Statement No. 69)</i> | 2015 |
| 71 | <i>Pension Transition for Contributions Made Subsequent to the Measurement Date (GASB Statement No. 71)</i> | 2015 |

The impact of the adoption of these statements has not been determined by management.

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

September 30, 2014

2. Blended Component Unit Condensed Financial Information

Following is the Foundation's condensed financial information for fiscal year 2014:

| | 2014 |
|---|----------------|
| Condensed information from Statement of Net Position | |
| Current assets | \$ 1,588,515 |
| Non-current assets excluding capital assets | 36,018,585 |
| Capital assets, less accumulated depreciation | 113,000 |
| Total assets | 37,720,100 |
| Current liabilities | 9,936,895 |
| Total liabilities | 9,936,895 |
| Net position: | |
| Restricted nonexpendable | 18,913,807 |
| Restricted expendable | 8,869,398 |
| Total net position | \$ 27,783,205 |
| Condensed information from Statement of Revenues, Expenses and Changes in Net Position | |
| Operating expenses | \$ (2,401,811) |
| Operating loss | (2,401,811) |
| Non-operating revenues | 5,684,402 |
| Change in net position | 3,282,591 |
| Net position: | |
| Net position at beginning of year | 24,500,614 |
| Net position at end of year | \$ 27,783,205 |

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

2. Blended Component Unit Condensed Financial Information (continued)

| | 2014 |
|--|----------------|
| Condensed information from Statement of Cash Flows: | |
| Operating activities | |
| Payments to suppliers and vendors | \$ (3,529,017) |
| Payments for scholarships | (111,784) |
| Net cash used in operating activities | (3,640,801) |
| Noncapital financing activities | |
| Endowment gifts | 1,681,362 |
| Net cash provided by noncapital financing activities | 1,681,362 |
| Investing activities | |
| Proceeds from sales and maturities of investments | 6,186,147 |
| Investment income | 445,908 |
| Purchases of investments | (4,625,646) |
| Net cash used in investing activities | 2,006,409 |
| Net change in cash and cash equivalents | 46,970 |
| Cash and cash equivalents at beginning of year | 1,622,371 |
| Cash and cash equivalents at end of year | \$ 1,669,341 |
| Reconciliation of net operating loss to net cash used in operating activities | |
| Operating loss | \$ (2,401,811) |
| Adjustments to reconcile operations loss to net cash used in operating activities: | |
| Due to UVI | (1,238,990) |
| Net cash used in operating activities | \$ (3,640,801) |

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

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, 2014, 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, 2014, cash and cash equivalents amounted to approximately \$12.4 million and restricted cash and cash equivalents amounted to approximately \$0.1 million.

4. Accounts Receivable

The University's accounts receivable as of September 30, 2014, are composed of the following:

| | |
|--|---------------------|
| U.S. Virgin Islands Government | \$ 622,253 |
| U.S. Federal Government | 1,954,887 |
| Student | 2,212,620 |
| Due from related party (Tech Park), <i>see Note 13</i> | 1,312,660 |
| Other | <u>1,111,114</u> |
| | 7,213,534 |
| Less allowance for doubtful accounts | <u>(1,233,968)</u> |
| Accounts receivable, net | <u>\$ 5,979,566</u> |

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

5. Investments

The Board of Trustees (the Board), as the governing Board, is responsible for the management of the University's investments and establishes investment policy, which is carried out by the Vice President for Administration and Finance. The University and the Reichhold Foundation have a formal investment policy approved by their corresponding Board of Trustees, which contains a requisite section on addressing risks.

In fiscal year 2013, the Board passed a resolution to transfer all of the University's investments to the Foundation's investments portfolio for management and investment purposes. All investments held by the Foundation will be shown within the University's schedules included below.

The University's restricted investments as of September 30, 2014, consist of the following:

| | <u>Fair Value</u> |
|------------------------|-----------------------------|
| Corporate bonds | \$ 99,826 |
| Equities | 2,051,898 |
| Mutual funds | 487,579 |
| Alternative strategies | 33,298,456 |
| | <u><u>\$ 35,937,759</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, 2014, consist of:

| | <u>Fair Value</u> |
|-----------------|-----------------------------|
| Corporate bonds | \$ 4,155,122 |
| Equities | 6,689,723 |
| Mutual funds | 1,122,053 |
| | <u><u>\$ 11,966,898</u></u> |

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

5. Investments (continued)

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.

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, 2014, more than 5% of the University's restricted investments at fair value were invested as follows:

| Investment | As a % of total Restricted investments at fair value | Value as of September 30, 2014 |
|---------------------------------------|---|---------------------------------------|
| Commonfund Multi-strategy Equity Fund | 60% | \$ 21,399,337 |
| Commonfund Multi-strategy Bond Fund | 22% | 8,026,653 |
| Commonfund High Quality Bond Fund | 9% | 3,181,595 |

At September 30, 2014, more than 5% of the Reichhold Foundation's investments at fair value were invested as follows:

| Investment | As a % of total Investments at fair value | Value as of September 30, 2014 |
|-----------------------------------|--|---------------------------------------|
| Fidelity Investments Mutual Funds | 9% | \$ 1,122,052 |
| Goldman Sachs Fixed Income | 32% | 3,833,706 |
| Goldman Sachs Public Equity | 56% | 6,689,723 |

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

5. Investments (continued)

Interest-Rate Risk

Interest-rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The prices of fixed income securities with longer maturity time tend to be more sensitive to changes in interest rates and, therefore, more volatile than those with shorter durations. Below is a table showing the University's fixed income investments maturity dates in years:

| Years until maturity | <1 | 1-2 | 3-5 | 6-10 | 11-15 | 16+ | Total |
|----------------------|-----------|-----------|-----------|------|-------|------|-----------|
| Corporate bonds | \$ 39,999 | \$ 29,978 | \$ 29,849 | \$ – | \$ – | \$ – | \$ 99,826 |
| Total | \$ 39,999 | \$ 29,978 | \$ 29,849 | \$ – | \$ – | \$ – | \$ 99,826 |

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 | \$ 103,195 | \$ 203,376 | \$ – | \$ – | \$ – | \$ 3,848,551 | \$ 4,155,122 |
| Total | \$ 103,195 | \$ 203,376 | \$ – | \$ – | \$ – | \$ 3,848,551 | \$ 4,155,122 |

Credit Risk

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

As of September 30, 2014, the University's credit quality distribution for securities was as follows:

| | Carrying Value | Standard & Poor's Ratings |
|-----------------------|---------------------------|--|
| Corporate bonds | \$ 99,826 | Not rated |
| Total corporate bonds | \$ 99,826 | |

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

5. Investments (continued)

Credit Risk (continued)

As of September 30, 2014, the Reichhold Foundation's credit quality distribution for securities was as follows:

| | Carrying Value | Standard & Poor's Ratings |
|-----------------------|---------------------------|--|
| Corporate bonds | \$ 103,195 | AA |
| Corporate bonds | 109,310 | A |
| Corporate bonds | 94,066 | A- |
| Corporate bonds | 3,848,552 | Not rated |
| Total corporate bonds | <u>\$ 4,155,122</u> | |

Custodial Credit Risk

Custodial credit risk related to investments is the risk that, in the event of failure of the counterparty to a transaction, the University and the Reichhold Foundation may not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At September 30, 2014, 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.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

6. Donor-Restricted Endowments (continued)

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

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

7. Student Loans Receivable

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

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

8. Capital Assets

Changes in capital assets for the year ended September 30, 2014, are as follows.

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|------------------------------|--------------------|---------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 6,185,112 | \$ 1,300,000 | \$ - | \$ 7,485,112 |
| Construction-in-progress | 357,396 | - | (357,396) | - |
| Total capital assets not being depreciated | <u>6,542,508</u> | <u>1,300,000</u> | <u>(357,396)</u> | <u>7,485,112</u> |
| Capital assets being depreciated: | | | | |
| Land improvements | 2,799,247 | - | - | 2,799,247 |
| Buildings, fixed equipment, improvements and infrastructure | 87,776,233 | 2,121,849 | - | 89,898,082 |
| Equipment and library materials | 25,137,042 | 368,694 | (12,428,919) | 13,076,817 |
| Total capital assets being depreciated | <u>115,712,522</u> | <u>2,490,543</u> | <u>(12,428,919)</u> | <u>105,774,146</u> |
| Less accumulated depreciation: | | | | |
| Land improvements | (1,914,841) | (53,879) | - | (1,968,720) |
| Buildings, fixed equipment, improvements and infrastructure | (32,656,276) | (1,794,808) | - | (34,451,084) |
| Equipment and library materials | (18,507,864) | (1,202,481) | 12,413,688 | (7,296,657) |
| Total accumulated depreciation | <u>(53,078,981)</u> | <u>(3,051,168)</u> | <u>12,413,688</u> | <u>(43,716,461)</u> |
| Total capital assets being depreciated, net | <u>62,633,541</u> | <u>(560,625)</u> | <u>(15,231)</u> | <u>62,057,685</u> |
| Total capital assets, net | <u>\$ 69,176,049</u> | <u>\$ 739,375</u> | <u>\$ (372,627)</u> | <u>\$ 69,542,797</u> |

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

September 30, 2014

9. Noncurrent Liabilities

Changes in noncurrent liabilities for the year ended September 30, 2014, are as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Less amounts due within one year | Noncurrent liabilities |
|-----------------------------|----------------------|--------------|--------------|-------------------|-------------------------------------|---------------------------|
| Notes payable - HBCU | \$ 56,346,432 | \$ - | \$ 1,754,847 | \$ 54,591,585 | \$ 1,803,187 | \$ 52,788,398 |
| Notes payable - other | 1,365,777 | - | 136,189 | 1,229,588 | 143,684 | 1,085,904 |
| Total notes payable | 57,712,209 | - | 1,891,036 | 55,821,173 | 1,946,871 | 53,874,302 |
| Accrued vacation | 4,786,593 | 1,335,279 | 1,663,611 | 4,458,261 | 1,261,487 | 3,196,774 |
| Other long-term liabilities | 484,250 | 33,500 | 201,000 | 316,750 | 99,750 | 217,000 |
| Total | \$ 62,983,052 | \$ 1,368,779 | \$ 3,755,647 | \$ 60,596,184 | \$ 3,308,108 | \$ 57,288,076 |

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 under the Series 2011-3. The 2011-2 Bonds have serial maturity dates through August 1, 2034, and the 2011-3 Bonds have maturity dates through August 1, 2040. Interest payments are due February and August. Interest on the 2011-2 Bonds is calculated at 3.48% and interest on the 2011-3 Bonds is calculated from the date of each advance using the long-term U.S. Treasury Rate on that day plus 22.5 basis points.

In January 2007, the University entered into an agreement with a vendor to pay for services incurred during the research of a Wind Turbine project. The original amount of the note was \$450,000 payable in 120 equal monthly installments of \$4,828 including interest at 5.25% per annum. As of September 30, 2014, the amount outstanding was \$126,974.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

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, 2014, the amount outstanding was \$1,102,613. 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.

For the year ended September 30, 2014, the interest expense was \$1,945,332. This amount is included in the accompanying statement of revenues, expenses and changes in net position.

Future principal and interest payments on notes payables follow:

| Year ending September 30, | Principal | Interest | Total |
|---------------------------|----------------------|----------------------|----------------------|
| 2015 | \$ 1,946,871 | \$ 1,815,904 | \$ 3,762,775 |
| 2016 | 2,028,578 | 1,736,197 | 3,764,775 |
| 2017 | 2,054,554 | 1,671,595 | 3,726,149 |
| 2018 | 2,104,767 | 1,602,070 | 3,706,837 |
| 2019 | 2,176,532 | 1,530,305 | 3,706,837 |
| 2020-2024 | 11,967,751 | 6,491,157 | 18,458,908 |
| 2025-2029 | 13,387,591 | 4,393,756 | 17,781,347 |
| 2030-2034 | 15,758,950 | 2,022,396 | 17,781,346 |
| 2035-2039 | 3,615,988 | 356,755 | 3,972,743 |
| 2040 | 779,591 | 14,957 | 794,548 |
| Total | <u>\$ 55,821,173</u> | <u>\$ 21,635,092</u> | <u>\$ 77,456,265</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, 2014, the University was in compliance with the required covenants.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

11. Leases

The University has several non-cancelable operating leases, primarily for the facilities being used by the University's Small Business Development Center, Virgin Islands Development and Disabilities (VIUCEDD) and the University's Academic Center in St. John, which expire over the next four years. These leases generally contain renewal options for periods ranging from one to five years.

Future minimum lease payments under non-cancelable operating leases as of September 30, 2014, are as follows:

| Year ending September 30, | |
|------------------------------|-------------------|
| 2015 | \$ 235,244 |
| 2016 | 236,444 |
| 2017 | 236,444 |
| 2018 | 236,444 |
| Total minimum lease payments | <u>\$ 944,576</u> |

Total rent expense related to these agreements amounted to approximately \$225,000 for the year ended September 30, 2014.

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, 2014, the University had accrued \$4,458,261 for vacation.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

13. Retirement Plans

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

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

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

Plan members are required to contribute 8.0% of their annual covered salary, and the University is required to contribute 14.5% of the annual covered payroll. The University and the plan member's contributions to TIAA-CREF for the years ended September 30, 2014, 2013, and 2012 were \$2,336,456, 2,198,662, and \$4,189,182, 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, and 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 (regular employees) 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 determined 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.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

13. Retirement Plans (continued)

Effective January 1, 2015, regular employee contributions will increase from 8.0% to 9.0% and will increase by 1% each year effective January 1, 2016 and January 1, 2017. In addition, effective January 1, 2015, employer contributions will increase from 17.5% to 20.5%. The rate for regular employees with 30 years or more will increase from 11.0% to 12.0% effective January 1, 2015 and will increase by 1% each year effective January 1, 2016 and January 1, 2017.

The University's contributions to GERS for the years ended September 30, 2014, 2013, and 2012, were \$1,401,719, \$1,372,722, and \$1,378,668, respectively, equal to the required contributions for each year.

GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed above in the description of GASB Statement No. 67. This Statement replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of GASB Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental non-employer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and Required Supplementary Information requirements about pensions also are addressed. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The University has not completed the process of evaluating the impact of GASB Statement No. 68 on its financial statements.

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

14. Functional Information

The University's operating expenses by functional classification as of September 30, 2014, were as follows:

| Functional classification | Salaries and benefits | Supplies and other services | Scholarships and other services | Utilities | Depreciation | Other expenditures | Total |
|------------------------------------|-----------------------|-----------------------------|---------------------------------|---------------------|---------------------|---------------------|----------------------|
| Instruction | \$ 13,468,378 | \$ 1,433,271 | \$ 181,646 | \$ 36,836 | \$ – | \$ 160,934 | \$ 15,281,065 |
| Research | 4,360,587 | 3,803,711 | 161,027 | 164,848 | – | 88,306 | 8,578,479 |
| Public service | 4,577,816 | 2,108,189 | 1,106,274 | 78,383 | – | 59,057 | 7,929,719 |
| Academic support | 3,667,255 | 1,098,732 | 100,193 | 1,126 | – | 76,488 | 4,943,794 |
| Student services | 2,504,225 | 1,475,853 | – | 951,724 | – | 47,674 | 4,979,476 |
| Institutional support | 6,007,755 | 5,236,117 | 2,000 | 251,761 | – | 407,374 | 11,905,007 |
| Operation and maintenance of plant | 4,088,394 | 1,549,075 | – | 3,439,064 | – | 140,254 | 9,216,787 |
| Student aid | 250,721 | 86,210 | 7,400,164 | – | – | 325 | 7,737,420 |
| Auxiliary enterprises | 1,309,952 | 2,724,545 | 169,708 | 574,784 | – | 122,257 | 4,901,246 |
| Depreciation | – | – | – | – | 3,051,168 | – | 3,051,168 |
| Other | – | 119,164 | – | – | – | – | 119,164 |
| | <u>\$ 40,235,083</u> | <u>\$ 19,634,867</u> | <u>\$ 9,121,012</u> | <u>\$ 5,498,526</u> | <u>\$ 3,051,168</u> | <u>\$ 1,102,669</u> | <u>\$ 78,643,325</u> |

15. Related Party Transactions

The University is owed approximately \$1,312,660 from the University of the Virgin Islands Research and Technology Park Corporation (RT Park) for payroll paid on its behalf. The RT Park is a public corporation and an autonomous governmental instrumentality of the Government of the United States Virgin Islands (the Government). The RT Park is a component unit of the Government.

16. Contingencies

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

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

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

16. Contingencies (continued)

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

Risk Management

The University has commercial insurance to mitigate its exposure to certain losses involving real and personal property (including windstorm, flood and earthquake damages) and comprehensive general and automobile claims.

Each commercial insurance policy maintained by the University contains specific policy limits and deductibles. A summary of the commercial insurance maintained by the University is as follows:

| <u>Coverage</u> | <u>Deductible</u> | <u>Policy Limit</u> |
|-----------------------------------|---------------------|--------------------------|
| Real and personal property: | | |
| Windstorm | \$500,000 per event | \$40.0 million per event |
| Flood | \$500,000 per event | \$40.0 million per event |
| Earthquake | \$500,000 per event | \$40.0 million per event |
| All other | \$10,000 per event | \$40.0 million per event |
| Automobile | — | \$1.0 million per event |
| Comprehensive general liabilities | — | \$1.0 million per event |
| Professional liability | — | \$1.0 million per event |
| First excess general liability | — | \$900,000 |
| Officers and Directors | — | \$1.0 million |

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

University of the Virgin Islands

Notes to Financial Statements (continued)

September 30, 2014

17. Subsequent Events

The University's Board of Trustees approved the creation of a Liaison Committee on Medical Education (LCME) accredited medical school and, if successful, the University's School of Medicine would be the only English speaking accredited medical school in the Caribbean. The University submitted its application for accreditation in November 2014 and the accreditation agency is planning a site visit during the summer of 2015.

The University pursued a loan through the U. S. Department of Education's HBCU Capital Financing Program for construction of the Medical School facilities. A resolution was executed by the University's Board of Trustees to authorize the project. On February 27, 2015, the University entered into a capital project loan agreement (loan agreement). Under the loan agreement, the University can request advances up to \$19,000,000. The loan agreement has serial maturity dates through December 1, 2044. Interest payments are due on February and August. Interest will be calculated based on US Treasury yields prevailing at the date of each advancement plus 22.5 basis points.



Ernst & Young LLP
Plaza 273, Suite 1000
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 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, 2014, 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 31, 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 the University's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist, that 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.



Compliance and Other Matters

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

Purpose of this Report

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

Ernst & Young LLP

March 31, 2015

Single Audit Report



Ernst & Young LLP
Plaza 273, 10th Floor
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
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, 2014. 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 compliance for each of the University’s major federal programs based on our audit of the types of compliance requirements referred to above.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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.

Opinion on Each Major Federal Program

In our opinion, the University's complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

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 the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 University as of and for the year ended September 30, 2014, and have issued our report thereon dated March 31, 2015, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Ernst + Young LLP

June 30, 2015

University of the Virgin Islands

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2014

| Program Title | CFDA Number | Direct Award | Research and Development Cluster | Student Financial Assistance Cluster | College Access Challenge Grant Program | 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 | \$ 1,441,180 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,441,180 |
| Minority Health and Health Disparities Research | 93.307 | No | 135,624 | - | - | - | - | - | 135,624 |
| <i>Total Minority Health and Health Disparities Research</i> | | | <i>1,576,804</i> | - | - | - | - | - | <i>1,576,804</i> |
| Substance Abuse and Mental Health Services - Projects of Regional and National Significance | 93.243 | Yes | 173,055 | - | - | - | - | - | 173,055 |
| Substance Abuse and Mental Health Services - Projects of Regional and National Significance | 93.243 | No | 21,832 | - | - | - | - | - | 21,832 |
| <i>Total Substance Abuse and Mental Health Services</i> | | | <i>194,887</i> | - | - | - | - | - | <i>194,887</i> |
| TRANS-NIH Research Support | 93.310 | Yes | 101,400 | - | - | - | - | - | 101,400 |
| University Centers for Excellence in Developmental Disabilities Education, Research, and Service | 93.632 | Yes | - | - | - | - | - | 562,080 | 562,080 |
| Biomedical Research and Research Training | 93.859 | Yes | 581,477 | - | - | - | - | - | 581,477 |
| Family and Community Violence Prevention Program | 93.910 | No | - | - | - | - | - | 575 | 575 |
| Total US Department of Health and Human Services | | | 2,454,567 | - | - | - | - | 562,655 | 3,017,222 |
| US Department of Agriculture | | | | | | | | | |
| Specialty Crop Block Grant Program - Farm Bill | 10.170 | No | 39,794 | - | - | - | - | - | 39,794 |
| Cooperative Forestry Research | 10.202 | Yes | 45,051 | - | - | - | - | - | 45,051 |
| Payments to Agricultural Experiment Stations Under the Hatch Act | 10.203 | Yes | 1,132,712 | - | - | - | - | - | 1,132,712 |
| Sustainable Agriculture Research and Education | 10.215 | No | 135,889 | - | - | - | - | - | 135,889 |
| Resident Instruction Grants for Insular Area Activities | 10.308 | Yes | 229,826 | - | - | - | - | - | 229,826 |
| Resident Instruction Grants for Insular Area Activities | 10.308 | No | 114,957 | - | - | - | - | - | 114,957 |
| <i>Total Resident Instruction Grants for Insular Area Activities</i> | | | <i>344,783</i> | - | - | - | - | - | <i>344,783</i> |
| Specialty Crop Research Initiative | 10.309 | No | 17,671 | - | - | - | - | - | 17,671 |
| Sun Grant Program | 10.320 | No | 6,085 | - | - | - | - | - | 6,085 |
| Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers | 10.443 | No | 12,743 | - | - | - | - | - | 12,743 |
| Cooperative Extension Service | 10.500 | Yes | 1,075,771 | - | - | - | - | - | 1,075,771 |
| Cooperative Extension Service | 10.500 | Yes | - | - | - | - | - | 297,992 | 297,992 |
| Cooperative Extension Service | 10.500 | No | 22,693 | - | - | - | - | - | 22,693 |
| <i>Total Cooperative Extension Service</i> | | | <i>1,098,463</i> | - | - | - | - | <i>297,992</i> | <i>1,396,455</i> |

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2014

| Program Title | CFDA Number | Direct Award | Research and Development Cluster | Student Financial Assistance Cluster | College Access Challenge Grant Program | Higher Education Institutional Aid | Small Business Development Center | Other Programs | Total Federal Expenditures |
|---|-------------|--------------|----------------------------------|--------------------------------------|--|------------------------------------|-----------------------------------|----------------|----------------------------|
| Rural Business Enterprise Grants | 10.769 | Yes | - | - | - | - | - | 49,545 | 49,545 |
| Beginning Farmer and Rancher Development Program | 10.311 | Yes | 203,091 | - | - | - | - | - | 203,091 |
| Total US Department of Agriculture | | | 3,036,282 | - | - | - | - | 347,537 | 3,383,820 |
| <i>US Department of Energy</i> | | | | | | | | | |
| National Nuclear Security Administration (NNSA) Minority Serving Institutions (MSI) Program | 81.123 | No | 29,998 | - | - | - | - | - | 29,998 |
| Total US Department of Energy | | | 29,998 | - | - | - | - | - | 29,998 |
| <i>US Department of Education</i> | | | | | | | | | |
| Federal Supplemental Educational Opportunity Grants | 84.007 | Yes | - | 62,039 | - | - | - | - | 62,039 |
| Federal Work-Study Program | 84.033 | Yes | - | 77,060 | - | - | - | - | 77,060 |
| Federal Pell Grant Program | 84.063 | Yes | - | 5,182,654 | - | - | - | - | 5,182,654 |
| Federal Direct Student Loans | 84.268 | Yes | - | 2,955,673 | - | - | - | - | 2,955,673 |
| Federal Direct Student Loans | 84.268 | Yes | - | 2,197,014 | - | - | - | - | 2,197,014 |
| Federal Perkins Loans Program | 84.038 | Yes | - | 9,915 | - | - | - | - | 9,915 |
| Assistive Technology | 84.224 | Yes | - | - | - | - | - | 215,552 | 215,552 |
| Higher Education Institutional Aid | 84.031 | Yes | - | - | - | 2,451,791 | - | - | 2,451,791 |
| College Access Challenge Grant Program | 84.378 | Yes | - | - | 1,402,854 | - | - | - | 1,402,854 |
| Total US Department of Education | | | - | 10,484,355 | 1,402,854 | 2,451,791 | - | 215,552 | 14,554,552 |
| <i>US Department of Labor</i> | | | | | | | | | |
| Consultation Agreements | 17.504 | Yes | - | - | - | - | - | 359,144 | 359,144 |
| Total US Department of Labor | | | - | - | - | - | - | 359,144 | 359,144 |
| <i>US Department of the Interior</i> | | | | | | | | | |
| Assistance to State Water Resources Research Institutes | 15.805 | Yes | 69,806 | - | - | - | - | - | 69,806 |
| Economic, Social, and Political Development of the Territories | 15.875 | Yes | - | - | - | - | - | 260,368 | 260,368 |
| Cooperative Research and Training Programs – Resources of the National Park System | 15.945 | No | 3,288 | - | - | - | - | - | 3,288 |
| National Park Service Conservation, Protection, Outreach, and Education | 15.954 | Yes | 5,803 | - | - | - | - | - | 5,803 |
| Total US Department of the Interior | | | 78,897 | - | - | - | - | 260,368 | 339,266 |
| National Aeronautics and Space Administration | | | | | | | | | |
| Education | 43.008 | No | 41,256 | - | - | - | - | - | 41,256 |
| Total National Aeronautics and Space Administration | | | 41,256 | - | - | - | - | - | 41,256 |

University of the Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2014

| Program Title | CFDA Number | Direct Award | Research and Development Cluster | Student Financial Assistance Cluster | College Access Challenge Grant Program | Higher Education Institutional Aid | Small Business Development Center | Other Programs | Total Federal Expenditures |
|---|-------------|--------------|----------------------------------|--------------------------------------|--|------------------------------------|-----------------------------------|---------------------|----------------------------|
| National Science Foundation | | | | | | | | | |
| Biological Sciences | 47.074 | No | 1,594 | - | - | - | - | - | 1,594 |
| Geosciences | 47.050 | No | 25,282 | - | - | - | - | - | 25,282 |
| Geosciences | 47.050 | Yes | 25,356 | - | - | - | - | - | 25,356 |
| <i>Total Geosciences</i> | | | <i>50,638</i> | - | - | - | - | - | <i>50,638</i> |
| Computer and Information Science and Engineering | 47.070 | No | 7,091 | - | - | - | - | - | 7,091 |
| Education and Human Resources | 47.076 | Yes | 516,810 | - | - | - | - | - | 516,810 |
| Office of Experimental Program to Stimulate Competitive Research | 47.081 | Yes | 1,558,446 | - | - | - | - | - | 1,558,446 |
| Office of International Science and Engineering | 47.079 | No | 83,162 | - | - | - | - | - | 83,162 |
| Office of International Science and Engineering | 47.079 | Yes | 94,515 | - | - | - | - | - | 94,515 |
| <i>Total Office of International Science and Engineering</i> | | | <i>177,677</i> | - | - | - | - | - | <i>177,677</i> |
| Total National Science Foundation | | | 2,312,255 | - | - | - | - | - | 2,312,255 |
| Small Business Administration | | | | | | | | | |
| Small Business Development Centers | 59.037 | Yes | - | - | - | - | 671,546 | - | 671,546 |
| Total Small Business Administration | | | - | - | - | - | 671,546 | - | 671,546 |
| US Department of Commerce | | | | | | | | | |
| Sea Grant Support | 11.417 | No | 28,226 | - | - | - | - | - | 28,226 |
| Unallied Science Program | 11.472 | No | 81,157 | - | - | - | - | - | 81,157 |
| Center for Sponsored Coastal Ocean Research Coastal Ocean Program | 11.478 | Yes | 151,057 | - | - | - | - | - | 151,057 |
| Center for Sponsored Coastal Ocean Research Coastal Ocean Program | 11.478 | No | 67,662 | - | - | - | - | - | 67,662 |
| Marine Fisheries Initiative | 11.433 | Yes | 171,672 | - | - | - | - | - | 171,672 |
| Coral Reef Conservation Program | 11.482 | Yes | 128,683 | - | - | - | - | - | 128,683 |
| Total US Department of Commerce | | | 628,456 | - | - | - | - | - | 628,456 |
| Total Federal Expenditures | | | \$ 8,581,713 | \$ 10,484,355 | \$ 1,402,854 | \$ 2,451,791 | \$ 671,546 | \$ 1,745,257 | \$ 25,337,516 |

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, 2014

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. Loan Programs

During the fiscal year ended September 30, 2014, the University processed \$9,915 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, because the program is administered by a third party.

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

| | |
|---------------------------------------|------------------|
| Beginning Balance at October 1, 2013: | \$115,787 |
| Current year expenditures: | 9,915 |
| Current year collections: | (5,358) |
| Ending Balance at September 30, 2014: | <u>\$120,344</u> |

During the fiscal year ended September 30, 2014, the University processed \$5,152,687 of new loans under the Federal Direct Student Loans Program (CFDA No. 84.268). Since this program is administered by a third-party only, the new loans made in the fiscal year ended September 30, 2014, relating to this program are considered current year federal expenditures. The new loans made in the fiscal year ended September 30, 2014, 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, 2014

3. Noncash Items

The financial statements of the University includes the following note payable to the U.S. Department of Education, which is not included in the accompanying schedule of expenditures of federal awards as it has no continuing compliance requirements:

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 \$1,102,613

4. Subrecipients

The University provided federal awards to subrecipients as follows:

| Program Title | CFDA Number | Amount disbursed in fiscal year 2014 |
|--|--------------------|---|
| College Access Challenge Grant Program | 84.378 | \$ 910,000 |
| Research and Development Cluster | Various | 182,745 |
| Total | | <u>\$1,092,745</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, 2014

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?..... **No**
 Noncompliance material to financial statements noted?..... **No**

Federal Awards Section

Internal Control over major programs:

Material weaknesses identified?..... **No**
 Significant Deficiencies Identified?..... **No**

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 | Unmodified |
| Student Financial Assistance Cluster | Various | Unmodified |
| Research and Development Cluster | Various | Unmodified |

Any audit findings disclosed that are required to be reported under Section .510(a) of OMB Circular A-133?..... **No**

Dollar threshold used to distinguish between Type A and Type B programs..... **\$760,125**

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

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2014

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.

None reported.

University of the Virgin Islands

Schedule of Findings and Questioned Costs (continued)

Year Ended September 30, 2014

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.

None reported.

University of the Virgin Islands

Summary Schedule of Prior Audit Findings

Year Ended September 30, 2014

Finding 2013-02

| | |
|--|--|
| CFDA | 84.378 |
| | Various |
| Name of Federal Program | College Access Challenge Grant Research and Development Cluster |
| Type of Compliance Requirement | Subrecipient Monitoring |
| Amount of Questioned Cost | CFDA 84.378 - \$1,000,000 R&D Cluster - \$372,730 |
| Contact Person Responsible for Corrective Action Plan | Controller |
| Status | Corrected |

Finding 2012-03

| | |
|--|--|
| CFDA | 84.378 |
| | Various |
| Name of Federal Program | College Access Challenge Grant Research and Development Cluster |
| 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 | Corrected |

Finding 2012-04

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

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