

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)

*INDEPENDENT AUDITORS' REPORT
AND
FINANCIAL STATEMENTS AND REPORTS AND
SCHEDULES REQUIRED BY THE UNIFORM GUIDANCE*

For the year ended September 30, 2017

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
University of the Virgin Islands
(A Component Unit of the Government of the U.S. 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 the University of the Virgin Islands (a Component Unit of the Government of the U.S. Virgin Islands) (the "University"), as of and for the year ended September 30, 2017, 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 generally accepted accounting principles in the United States of America; 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.

Auditors' 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 of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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.



To the Board of Trustees of
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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, and the discretely presented component unit of the University as of September 30, 2017, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

Emphasis of Matter

Going Concern

The University has a deficit of approximately \$22 million. The University is highly dependent on funding from the Government of the Virgin Islands (the "Government") to repay obligations and fund its obligations. Approximately 43% of the University's total revenues are derived from the Government's appropriations. The Government is in a significant net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations. There can be no assurance that the Government's actions will be sufficient to permit continued funding of the University such that its operations and activities will not be curtailed or ceased in the future. Also, the U.S. Virgin Islands were impacted by two hurricanes, which affected significantly the assets and operations of the University. Considering that the University depends significantly on appropriations from the Government, the financial condition and liquidity of the University could be affected. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 4 through 13 and the Schedule of the University's Proportionate Share of the Net Pension Liability and Schedule of the University's Contributions on pages 47 through 49, respectively be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.



To the Board of Trustees of
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Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statement. The accompanying Schedule of Expenditures of Federal Awards included on pages 50 through 56, is presented for purposes of additional analysis as required by the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we also have issued our report dated October 12, 2018, 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.

BDO USVI, LLC

October 12, 2018
St. Thomas, U.S. Virgin Islands

**UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

The following discussion presents an overview of the financial position and activities of the University of the Virgin Islands (a Component Unit of the Government of the U.S. Virgin Islands) (the "University") for the fiscal year ended September 30, 2017, with selected comparative information for the year ended September 30, 2016. 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, notes to the financial statements 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 one 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 it is either 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.

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

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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 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 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.

Overview of the Basic Financial Statements

This discussion and analysis is intended to serve as an 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.

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

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has been incurred. All significant transactions related to internal service activities such as publications, and institutional computing, as well as, inter-fund 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 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 financial statements provide additional information that is essential for a full understanding of the data provided in the basic financial statements.

Statement of Net Position

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

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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 2017	Fiscal Year 2016	Change
Assets			
Current assets	\$ 14,050,558	\$ 13,745,394	\$ 305,164
Noncurrent assets:			
Capital assets, net	65,294,603	73,592,743	(8,298,140)
Other	<u>63,337,312</u>	<u>62,707,982</u>	<u>629,330</u>
Total assets	142,682,473	150,046,119	(7,363,646)
Deferred outflows of resources:			
Deferred loss resulting from debt refinancing	4,812,960	5,063,323	(250,363)
Unrealized pension contributions and losses	<u>25,359,261</u>	<u>22,184,693</u>	<u>3,174,568</u>
Total deferred outflows	30,172,221	27,248,016	2,924,205
Liabilities			
Current liabilities	14,480,106	12,380,323	2,099,783
Noncurrent liabilities	<u>176,410,701</u>	<u>165,249,685</u>	<u>11,161,016</u>
Total liabilities	190,890,807	177,630,008	13,260,799
Deferred inflows of resources -			
Deferred inflows related to pension	<u>3,912,998</u>	<u>1,094,840</u>	<u>2,818,158</u>
Total net (deficit) position	<u>\$ (21,949,111)</u>	<u>\$ (1,430,713)</u>	<u>\$ (20,518,398)</u>

Current assets

Current assets consist primarily of cash, cash equivalents and receivables. The current assets remained comparable.

The University's current assets of \$14.1 million cover the current liabilities of \$14.5 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 \$5 million for both fiscal years 2017 and 2016.

During fiscal year 2017, the University had construction in progress of \$4.2 million which is activity associated with the construction of the Medical School facilities. The University entered into construction contract valued at \$19 million for the construction of the Medical School facilities. As of September 30, 2017, outstanding commitments of \$7.5 million had not yet been incurred.

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Capital asset additions primarily represent replacement and improvements to existing buildings, as well as significant investments in equipment. Depreciation expense was \$3 million for both fiscal years 2017 and 2016.

On September 6, 2017 and September 20, 2017, Hurricanes Irma and Maria devastated the University and the U.S. Virgin Islands, respectively. The Hurricanes caused infrastructure-related damages disrupting the activities and operations of the University. During the year ended September 30 2017, the University recognized an impairment loss of \$10.4 million.

Other Non-current assets

Non-current assets include restricted cash and cash equivalents, restricted deposits with trustee, students' loans receivables and endowment investments at fair value.

Current liabilities

Current liabilities consist primarily of accounts payable and accrued liabilities, unearned revenue and the current portion of the long-term liabilities. Current liabilities totaled \$14.5 million on September 30, 2017, as compared to \$12.4 million on September 30, 2016. The overall increase of \$2.1 million in current liabilities is due in part to an increase in the student account payable for enrollment withdrawals following the September 2017 hurricanes and an increase in accrued vacations.

Non-current liabilities, including long-term debt

Non-current 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. Non-current liabilities increased by \$11.2 million in fiscal year September 30, 2017 due to the increase of \$6.7 million in the University's portion of the net pension liability, \$2.9 million increase in long-term debt and \$1.6 million increase in accrued vacation leave.

Under a loan agreement executed February 2015 with the US Department of Education Capital Financing Loan program, the University was authorized to request advances up to \$19 million under the Series 2015-1 loan. During fiscal year 2017, \$2.5 million was drawdown against the \$19 million loan.

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Net position

Net position represents the residual amount in the University's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted. Total net position at September 30, 2017 and 2016, is summarized as follows:

	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>
Net position:		
Net investment in capital assets	\$ (9,539,332)	\$ 18,910,914
Restricted	58,311,040	59,956,484
Deficit	<u>(70,720,819)</u>	<u>(80,298,111)</u>
 Total net (deficit) position	 <u>\$ (21,949,111)</u>	 <u>\$ (1,430,713)</u>

Restricted, non-expendable net position consists of assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. Restricted, non-expendable 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.

Restricted nonexpendable was \$10 million in 2017. Restricted expendable comprised of grants of \$17.8 million, scholarships of \$13.9 million, loans of \$886 thousand, debt service of \$9.2 million, and other of \$5.4 million, totaling \$58.3 million total restricted net position.

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. For fiscal year September 30, 2017, the University shows a deficit of approximately \$21.9 million due to the cumulative effect of recognizing the net pension liability, as well the impairment loss of the \$10.4 million.

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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.

A summarized comparison of the University's revenues, expenses and changes in net position for the years ended September 30, September 30, 2017 and September 30, 2016, follows:

	Fiscal Year 2017	Fiscal Year 2016	Change
Operating revenues:			
Tuition and fees, net of scholarship allowance	\$ 13,664,896	\$ 15,996,178	\$ (2,331,282)
Grants and contracts	16,982,906	17,293,003	(310,097)
State grants and contracts	7,141,769	3,537,075	3,604,694
Auxiliary enterprises	2,897,904	3,146,509	(248,605)
Other operating revenues	661,277	1,648,931	(987,654)
Total operating revenues	41,348,752	41,621,696	(272,944)
Operating expenses	82,008,261	83,603,191	(1,594,930)
Operating loss	(40,659,509)	(41,981,495)	1,321,986
Non-operating revenues (expenses):			
Local government appropriation	20,404,581	26,816,843	(6,412,262)
Federal Pell Grant Program	4,645,011	5,283,873	(638,862)
Other non-operating income	3,579,540	4,128,018	(548,478)
Loss on impairment of capital assets	(10,372,523)	-	(10,372,523)
Interest on indebtedness	(3,107,703)	(2,888,795)	(218,908)
Net non-operating revenues	15,148,906	33,339,939	(18,191,033)
Loss before other revenues	(25,510,603)	(8,641,556)	(16,869,047)
Capital appropriations	4,992,205	4,692,205	300,000
Change in net position	(20,518,398)	(3,949,351)	(16,569,047)
Net position:			
At beginning of year	(1,430,713)	2,518,638	(3,949,351)
At end of year	\$ (21,949,111)	\$ (1,430,713)	\$ (20,518,398)

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The University supplements the funds it receives from student tuition and fees, with local government appropriations, federal and local sponsored programs, private gifts and grants, and investment income. Fiscal year September 30, 2017 tuition decreased by \$2.3 million, as a direct result of the impact of two hurricanes on the Virgin Islands. The Fall 2017 semester was extended into fiscal year 2018, resulting in an increase amount of tuition revenue being recognized in the subsequent year. The University 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 University continues to foster a strong relationship and partnership with the local government and recognizes the importance of its continued support.

The \$3.6 million increase in state grants and contracts is related to an increase in grants awarded and received during fiscal year September 30, 2017, when compared to fiscal year September 30, 2016.

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

Operating revenues decreased by 1% following the impact of the hurricanes on the University's enrollment in fiscal year September 30, 2017. Other revenues consist mainly of capital appropriations received from the Government to meet outstanding capital debt obligations. Other non-operating revenues consist of investment income and gifts.

For fiscal year September 30, 2017, operating expenses totaled \$82.2 million including compensation and benefits of \$49.2 million, supplies and other expenditures of \$17.8 million, depreciation expense of \$3 million, scholarships of \$7.9 million, and utilities of \$3.3 million.

A comparative summary of the University's operating expenses by object categories for the years ended September 30, 2017 and 2016, is as follows:

	<u>Fiscal Year 2017</u>	<u>Fiscal Year 2016</u>
Compensation and benefits	\$ 49,205,663	\$ 48,589,523
Supplies and other	18,517,803	20,157,784
Depreciation	2,978,873	2,950,328
Scholarships	7,989,715	8,639,219
Utilities	<u>3,316,207</u>	<u>3,266,337</u>
Total operating expenses	<u>\$ 82,008,261</u>	<u>\$ 83,603,191</u>

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Compensation and benefits is the largest category of expenses, representing 60% of the 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 non-academic employers. The increase in compensation and benefits of \$616 thousand, was due mainly to a salary increase for University employees.

Supplies and other expenses decreased due to the University's strict policy on holding departments to their budgets. Measures were put in place to ensure departments adhere to their respective budgets.

A comparative summary of the University's total operating expenses by functional classification for the years ended September 30, 2017 and 2016, is as follows:

<u>Function:</u>	<u>Fiscal Year</u> <u>2017</u>	<u>Fiscal Year</u> <u>2016</u>
Instruction	\$ 15,561,123	\$ 16,587,402
Institutional support	12,575,290	14,099,739
Research	10,488,202	10,942,030
Operation and maintenance of plant	8,827,096	6,612,986
Student aid	7,866,041	9,282,088
Public service	6,992,477	6,906,343
Academic support	6,135,580	5,029,644
Auxiliary enterprises	5,781,133	6,973,273
Student services	4,700,911	4,051,639
Depreciation	2,978,873	2,950,328
Other	<u>101,535</u>	<u>167,719</u>
Total expenses by function	<u>\$ 82,008,261</u>	<u>\$ 83,603,191</u>

Expenditure programs with the increases were academic support, student services, institutional support, operation and maintenance of plant, and depreciation. The expenditures with decreases were instruction, research, student aid and auxiliary enterprise, and public service.

Factors Impacting Future Periods

During fiscal year 2017, the University continued to feel the impact of economic contraction. The University's President and his Board continue to explore new ways to address the reduction in revenues in the face of increasing expenditures.

The University seeks to utilize online education as a method for better supporting students by providing additional options for studies. The offering of online degrees would necessitate offering a full complement of general education courses. The University is in the early planning stages of offering many general education courses online through additional faculty training or external partnerships.

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FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Financial Condition

The University is highly dependent on funding from the Government of the U.S. Virgin Islands ("GVI") to repay obligations and fund its obligations. Approximately 34% of the University's total revenues are derived from government appropriations. GVI is in net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations. In January and March 2017, the matching fund bonds and gross receipts tax bonds of the GVI experienced credit rating downgrades due to the financial and budgetary challenges experienced by the GVI. Such downgrades are likely to negatively impact the GVI's ability to access credit markets or to access them at supportable rates in the foreseeable future. In March, 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five year plan of revenue initiatives and cost-cutting measures. The challenge of unfunded pension liabilities was addressed through increases in the contribution rates of the employers and members participating in the GVI's multiple employer cost-sharing pension plan. The administrator of the pension plan, Government Employees' Retirement System, is an independent and separate agency of GVI. To date, revenues pledged for debt service have not been significantly impacted by GVI's financial condition and it is unknown what impact, if any, the GVI's financial condition will have on the University. The University's budget for fiscal year 2018 is expected to incur a decrease of 12.5% in GVI appropriations.

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
(A Component Unit of the Government of the U.S. Virgin Islands)
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

ASSETS	<u>University</u>	<u>Reichhold Foundation</u>
Current assets:		
Cash and cash equivalents	\$ 4,249,347	\$ 28,264
Accounts receivable, net	8,743,176	5,000
Inventories	572,048	-
Prepaid expenses and other current assets	<u>485,987</u>	<u>-</u>
Total current assets	14,050,558	33,264
Noncurrent assets:		
Restricted cash and cash equivalents	182,239	-
Restricted deposits with trustee	4,770,405	-
Students loans receivable, net of allowance for doubtful accounts of \$336,144	306,846	-
Investments at fair value	-	11,304,479
Restricted investments at fair value	56,216,963	-
Loan receivable, RT Park	1,860,859	-
Capital assets, net	<u>65,294,603</u>	<u>-</u>
Total noncurrent assets	<u>128,631,915</u>	<u>11,304,479</u>
Total assets	<u>\$ 142,682,473</u>	<u>\$ 11,337,743</u>
Deferred outflows of resources:		
Deferred loss resulting from debt refinancing	\$ 4,812,960	\$ -
Deferred amounts related to pensions	<u>25,359,261</u>	<u>-</u>
Total deferred outflows of resources	30,172,221	-
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	6,958,460	-
Unearned revenue	5,180,041	-
Current portion of long-term liabilities	<u>2,341,605</u>	<u>-</u>
Total current liabilities	14,480,106	-
Noncurrent liabilities:		
Long-term debt	79,646,896	-
Accrued vacation	4,553,007	-
Net pension liability	91,924,998	-
Other long-term liabilities	<u>285,800</u>	<u>-</u>
Total noncurrent liabilities	<u>176,410,701</u>	<u>-</u>
Total liabilities	190,890,807	-

(continues)

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
STATEMENT OF NET POSITION
SEPTEMBER 30, 2017

(continued)

	<u>University</u>	<u>Reichhold Foundation</u>
Deferred inflow of resources -		
Deferred amounts related to pension	3,912,998	-
Total deferred inflows of resources	<u>3,912,998</u>	-
Net position:		
Net investment in capital assets	(9,539,332)	-
Restricted non-expendable	10,900,331	-
Restricted expendable:		
Grants	17,827,696	-
Scholarships	13,996,520	-
Loans	886,320	-
Debt service	9,294,220	-
Other	5,405,953	-
Unrestricted (deficit)	<u>(70,720,819)</u>	<u>11,337,743</u>
Total net (deficit) position	<u>\$ (21,949,111)</u>	<u>\$ 11,337,743</u>

(concluded)

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
STATEMENT OF REVENUES, EXPENSES, AND CHANGE IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>University</u>	<u>Reichhold Foundation</u>
Revenues		
Operating revenues:		
Tuition and fees, net of scholarship allowance of \$468,165	\$ 13,664,896	\$ -
Federal grants and contracts	16,982,906	-
State grant and contracts	7,141,769	-
Auxiliary enterprises	2,897,904	-
Other	661,277	-
In-kind contribution	-	175,459
Total operating revenues	<u>41,348,752</u>	<u>175,459</u>
Expenses		
Salaries:		
Faculty	10,592,742	-
Exempt staff	13,778,717	-
Nonexempt wages	8,033,601	-
Benefits	16,800,603	-
Scholarships	7,989,715	-
In-kind contribution	-	175,459
Contributions to the University	-	701,204
Utilities	3,316,207	-
Supplies and other services	17,830,576	72,733
Depreciation	2,978,873	-
Other expenses	687,227	-
Total operating expenses	<u>82,008,261</u>	<u>949,396</u>
Operating loss	(40,659,509)	(773,937)
Non-operating revenues (expenses):		
Local government appropriation	20,404,581	-
Federal Pell grant program	4,645,011	-
Endowment gifts	746,790	-
Net investment income	2,832,750	1,153,447
Loss on impairment of capital assets	(10,372,523)	-
Interest on indebtedness	(3,107,703)	-
Total non-operating revenues, net	<u>15,148,906</u>	<u>1,153,447</u>
(Decrease) increase in net position before capital appropriations	(25,510,603)	379,510
Local government capital appropriations	<u>4,992,205</u>	<u>-</u>
(Decrease) increase in net position	(20,518,398)	379,510
Net (deficit) position at beginning of the year	<u>(1,430,713)</u>	<u>10,958,233</u>
Net (deficit) position at end of the year	<u>\$ (21,949,111)</u>	<u>\$ 11,337,743</u>

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>University</u>	<u>Reichhold Foundation</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees collected	\$ 13,664,896	\$ -
Grants and contracts collected	24,124,675	-
Auxiliary enterprises and other collected revenues	3,559,181	-
Payments of contributions to the University	-	(701,204)
Payments to suppliers and vendors	(18,109,991)	(77,733)
Payments to employees	(32,405,060)	-
Payments for utilities	(3,316,207)	-
Payments for benefits	(10,503,750)	-
Payments for scholarships	<u>(7,989,715)</u>	<u>-</u>
Net cash used in operating activities	(30,975,971)	(778,937)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Local government appropriations	20,404,581	-
Federal Pell Grant Program	4,645,011	-
Endowment gifts	<u>746,790</u>	<u>-</u>
Net cash provided by noncapital financing activities	25,796,382	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Local government capital appropriations	4,992,205	-
Purchase of capital assets	(5,053,256)	-
Proceeds from capital debt	5,378,334	-
Principal paid on capital debt	(2,230,167)	-
Interest paid on capital debt	<u>(2,934,533)</u>	<u>-</u>
Net cash provided by capital and related financing activities	152,583	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales and maturities of investments	2,773,491	1,946,635
Net investment income	4,254,719	341,580
Purchases of investments	<u>(1,684,516)</u>	<u>(1,541,844)</u>
Net cash provided by investing activities	5,343,694	746,371
Net change in cash and cash equivalents	316,688	(32,566)
Cash and cash equivalents, at beginning of the year	<u>8,885,303</u>	<u>60,830</u>
Cash and cash equivalents, at end of the year	<u>\$ 9,201,991</u>	<u>\$ 28,264</u>

(continues)

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

(continued)

	<u>University</u>	<u>Reichhold Foundation</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PRESENTED IN THE STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 4,249,347	\$ -
Restricted cash and cash equivalents	182,239	28,264
Restricted deposits with trustee	<u>4,770,405</u>	<u>-</u>
Total cash and cash equivalents	<u>\$ 9,201,991</u>	<u>\$ 28,264</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (40,659,509)	(773,937)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	2,978,873	-
Bad debt expenses	(719,501)	-
Pension expense	6,296,854	-
Changes in assets and liabilities, net:		
Grants and contracts receivable	(441,350)	-
Student loans receivables	(37,435)	-
Other accounts receivables	(1,184,485)	-
Contributions receivable	-	(5,000)
Inventories	(69,735)	-
Prepaid expenses and other current assets	172,838	-
Accounts payable and accrued liabilities	2,129,081	-
Unearned revenue	(1,017,651)	-
Accrued vacations	<u>1,576,049</u>	<u>-</u>
Net cash used in operating activities	<u>\$ (30,975,971)</u>	<u>\$ (778,937)</u>
Supplemental cash flow information -		
Impairment loss on capital assets	<u>\$ 10,372,523</u>	<u>\$ -</u>

(concluded)

The accompanying notes are an integral part of these financial statements.

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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 (“GVI”). 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 receives substantial financial and other support from GVI, and 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 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 campuses on the islands of St. Thomas, St. Croix, and St. John.

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.

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

A component unit is reported as blended when either (1) the component unit’s governing body is substantively the same as the University, and (a) there is a financial benefit or burden relationship between the University and the component unit, or (b) management of the University has operational responsibility for the component unit, or (2) the

UNIVERSITY OF THE VIRGIN ISLANDS
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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

component unit provides services entirely, or almost entirely, to the University or otherwise exclusively, or almost exclusively, benefits the University, or (3) the component unit's outstanding debt is expected to be repaid entirely or almost entirely with resources of the University.

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 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 University. 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 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.

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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 at 2 John Brewers Bay, St. Thomas, VI 00802.

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.

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.

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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. The bad debt expense for the fiscal year ended September 30, 2017, amounted to a credit of \$(719,501).

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market, and consist primarily of text books available for sale to students. The University evaluates bookstore inventory on a quarterly basis to determine inventory movement on merchandise. The University determine and write-off inventory damaged or obsoleted twice a year. Any text books which have remained unsold for four years are written-off.

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

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

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

Impairment of capital assets

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. The University evaluates prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred. Such events or changes in circumstances that may be indicative of impairment include evidence of physical damage, enactment or approval of laws or regulations or other changes in environmental factors, technological changes or evidence of obsolescence, changes in the manner or duration of use of a capital asset, and construction stoppage, among others.

The University reviews the carrying value of its capital assets to determine if circumstances exist indicating impairment. If facts or circumstances support the possibility of impairment, an impairment is recognized in the year the impairment occurs.

Impairment losses are reported in the statement of revenues, expenses, and change in net position net of any realizable insurance recovery. For impairment losses recoverable through disaster assistance programs sponsored by higher levels of government (such as Federal Emergency Management Agency), the loss would be reported separately from the grant awarded for recovery purposes. Any impairment adjustment to the carrying value of a capital asset would be treated as a proportionate reduction of both the reported value of the asset and its accumulated depreciation, based on the notion that the impairment represents the effective retirement of a portion of the asset.

During the fiscal year 2017, an impairment loss on capital assets amounting \$10.4 was recorded in statement of revenues, expenses and change in net position as a result of the damages caused by Hurricanes Irma and Maria on September 2017.

UNIVERSITY OF THE VIRGIN ISLANDS
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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

Deferred outflows of resources

The University reports separate sections in the statement of net position for deferred inflows of resources and deferred outflows of resources. These separate financial statement elements represent a consumption or receipt of resources that applies to a future period and therefore will not be recognized as an inflow or outflow of resources until then. The University includes in the deferred outflows of resources reporting category the deferred charges on refunded debt resulting from the difference in the carrying value of the refunded debt and its reacquisition price.

Differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and changes of assumptions about future economic or demographic factors or other inputs are reported as deferred outflows of resources and inflows of resources related to pensions. The University reports in the deferred outflows of resources and in the deferred inflows of resources the deferred components which are amortized over the average of the expected remaining service lives of its employees, and pension contributions made after the measurement date of September 30, 2015, and before October 1, 2017.

Unearned revenues

Unearned 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, September 30, 2017, approximately \$5.2 million of tuition and fees collected that relate to the remainder of the fall semester are deferred.

Pension

For purpose of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the University reports amounts on the same basis as reported by the Government Employees Retirement System ("GERS"). For information about the fiduciary net position of GERS, recognition of benefit payments, and additions to deductions from fiduciary net position, see GERS's separately issued audit report available at www.usvigiers.com/Reports/AuditedFinancialReports.aspx.

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.

UNIVERSITY OF THE VIRGIN ISLANDS
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SEPTEMBER 30, 2017

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

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

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. As of September 30, 2017, the University has an accumulated deficit of approximately \$89.8 million.

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.

UNIVERSITY OF THE VIRGIN ISLANDS
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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

Non-operating revenues include activities that have the characteristics of non-exchange transactions, and other revenue sources that are defined as non-operating, 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.

Gifts, pledges and contributions

Pledges of financial support from organizations and individuals representing an unconditional promise to give are recognized once all eligibility requirements, including time requirements, have been met. In the absence of such promise, revenue is recognized when the gift is received. Gift and contributions are recognized when 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.

Tuition and fees

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. The scholarship discounts and allowance for the fiscal year ended September 30, 2017, amounted to \$468,165.

UNIVERSITY OF THE VIRGIN ISLANDS
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NOTES TO THE FINANCIAL STATEMENTS
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Effect of recent GASB statements

Under GASB Statement No. 72, *Fair Value Measurement and Application*, (“GASB 72”) the University values investments at quoted market prices when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services. Fair value is described as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at a measurement date. GASB 72 establishes a hierarchy of inputs for valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs—other than quoted prices—included within Level 1 that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management’s assumption of the default rate among underlying mortgages of a mortgage-backed security.

2. BLENDED COMPONENT UNIT CONDENSED FINANCIAL INFORMATION

Following is the Foundation’s condensed financial information as of and for the fiscal year ended September 30, 2017:

Condensed information from Statement of Net Position

Current assets	\$ 2,462,958
Non-current assets excluding capital assets	56,216,963
Capital assets, less accumulated depreciation	<u>113,000</u>
Total assets	58,792,921
Current liabilities	<u>32,650,206</u>
Total liabilities	32,650,206
Net position:	
Restricted non-expendable	10,900,331
Restricted expendable	<u>18,207,221</u>
Total net position	<u>\$ 29,107,552</u>

(continues)

UNIVERSITY OF THE VIRGIN ISLANDS
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NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

(continued)

Condensed information from Statement of Revenue, Expenses and Changes in Net Position

Operating expenses	\$ (74,106)
Operating loss	(74,106)
Non-operating revenues	<u>3,412,213</u>
Change in net position	3,338,107
Net position:	
Net position at beginning of year	<u>25,769,445</u>
Net position at end of year	<u>\$ 29,107,552</u>
Operating activities:	
Payments for scholarship	(1,940,045)
Payments to suppliers	(74,006)
Payments from the University	<u>1,201,725</u>
Net cash used in operating activities	(812,326)
Non capital financing activities -	
Endowment gifts	<u>226,384</u>
Net cash provided by noncapital financing activities	226,384
Investing activities:	
Proceeds from loan repayments made by RT Park	197,847
Proceeds from the sale and redemption of investment	2,773,492
Proceeds from other loan repayments	198,500
Interest, dividends and realized gains received	982,918
Purchases of investments	<u>(1,684,516)</u>
Net cash provided by investing activities	<u>2,468,241</u>
Net change in cash and cash equivalents	1,882,299
Cash and cash equivalents at beginning of year	<u>580,659</u>
Cash and cash equivalents at end of year	<u>\$ 2,462,958</u>

(concluded)

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 GVI to secure all governmental funds deposited.

At September 30, 2017, the University's carrying amounts of cash and cash equivalents were covered by federal deposit insurance, corporate surety bonds or by collateral held by GVI.

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As of September 30, 2017, cash and cash equivalents amounted to approximately \$4.2 million and restricted cash and cash equivalents amounted to approximately \$200 thousand.

4. ACCOUNTS RECEIVABLE

The University's accounts receivable as of September 30, 2017, are composed of the following:

	<u>Amount</u>
U.S. Virgin Islands Government	\$ 454,651
U.S. Federal Government	3,529,169
Students	3,775,468
Due from related party (Tech Park)	165,000
Other	<u>2,060,826</u>
	9,985,114
Less: Allowance for doubtful accounts	<u>(1,241,938)</u>
Accounts receivable, net	<u>\$ 8,743,176</u>

The bad debt expense for the fiscal year ended September 30, 2017, amounted to a credit of \$719,501.

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 2014, the Board passed a resolution to transfer all of the University's investments to the Foundation's investments portfolio for management and investment purposes.

Investments are recorded at fair value. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

The University measures and records its investments using fair value measurement guidelines, as follows:

- Level 1: Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a government can access at the measurement date.

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- Level 2: Inputs are other than quoted prices included within Level 1 that are observable for an asset or liability, either directly or indirectly. This includes quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, or inputs that are derived principally from or corroborated by observable market data.
- Level 3: Inputs are unobservable inputs for the asset or liability. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

At September 30, 2017, the University had the following recurring fair value measurements:

	Fair Value Measurement	Level 1	Level 2	Level 3
Equity Securities	\$ 3,561,099	\$ 3,561,099	\$ -	\$ -
Mutual Funds	547,279	547,279	-	-
Common Fund:				
Multi Strategy Bond Fund	15,298,841	-	-	15,298,841
Multi Strategy Equity Fund	34,882,142	-	-	34,882,142
Total investment at fair value	<u>54,289,361</u>	<u>4,108,378</u>	<u>-</u>	<u>50,180,983</u>
Investments measured at the net asset value (NAV) -				
Private Capital Fund	<u>1,927,602</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 56,216,963</u>	<u>\$ 4,108,378</u>	<u>\$ -</u>	<u>\$ 50,180,983</u>

At September 30, 2017, the Reichhold Fondation had the following recurring fair value measurements:

	Fair Value Measurement	Level 1	Level 2	Level 3
Corporate Bonds and US Debt Securities	\$ 153	\$ -	\$ 153	\$ -
Mutual Funds	551,208	551,208	-	-
Fixed income	3,557,156	3,557,156	-	-
Equity securities	7,195,962	7,195,962	-	-
Total	<u>\$ 11,304,479</u>	<u>\$ 11,304,326</u>	<u>\$ 153</u>	<u>\$ -</u>

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The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Equity securities - Investments in equity securities are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which closing stock prices are readily available.

Mutual funds - Investments in mutual funds are measured at fair value using quoted market prices. They are classified as Level 1 as they are traded in an active market for which market prices are readily available.

Fixed income securities - Investments in fixed income securities are classified as Level 2, since their pricing is based on multiple sources of information that include market data and/or quoted prices from either market that are not active or are for the identical or similar assets in an active market.

Alternative strategies - The Foundation invests in certain alternative strategies that are essentially funds of funds. The Multi-Strategy Bond Fund and the Multi-Strategy Equity Fund are classified as Level 3, since these contain underlying investments for which their pricing is based on multiple sources of information that include market data and/or quoted prices from either markets that are not active or are for the identical or similar assets in an active market, as well as underlying investments for which valuation is based on unobservable inputs. Commonfund's marketable funds pricing and valuation processes are built upon a base of independent third-party pricing for the majority of fund holdings. Independent third-party pricing sources are used to price all security positions for which a readily determinable market price is available. Securities for which a third-party pricing sources are not available are priced on a "fair value" basis, subject to review and approval by the Fair Value Committee. The University values its private capital funds using the net asset value ("NAV") provided by the private investment companies as a practical expedient.

The University applies the practical expedient to its private capital funds on an investment-by-investment basis, and consistently with the University's entire position in a particular investment, unless it is probable that the University will sell a portion of an investment at an amount different from the NAV of the investment. The Foundation can make redemptions from the Multi-Strategy funds on a monthly basis upon five business days' notice.

6. 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.

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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.

Credit risk

Credit risk is the risk that the University and the Reichhold Foundation will not recover their investment due to the inability 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, 2017, the University and Reichhold Foundation's credit quality distribution for securities was as follows:

	<u>Carrying Value</u>	<u>Credit Agency Rating</u>
Multi-Strategy Bond Fund	\$ 15,298,841	AA (average rating)
Sate street Inst US Govt MM Fund	8,832	AAA (average rating)
Voya Floating Rate Fund	269,845	BBB through CCC or lower and Not Rated
Eaton Vance Income Fund of Boston, Class I	709,420	BBB through CCC or lower and Not Rated
Blackrock CoreAlpha Bond Fund*	1,919,479	AAA through B, Derivatives, Not Rated and Other
iShares Russell 2000 SamII-Cap Index Fund	365,948	AAA through BBB
	<u>\$ 18,572,365</u>	

* At least 80% of this fund is comprised obligations issued or guaranteed by the U.S. Government.

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, 2017, 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.

7. 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.

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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.

Restricted Investments

Subject to the intent of a donor expressed in a gift instrument, the Foundation may appropriate for expenditures or accumulate so much of the investments as the Board of Directors determines to be prudent for the uses, benefits, purposes and duration for which each of the separate endowments in the investments are established. In making a determination to appropriate or accumulate, the Foundation shall act in good faith, with the care of an ordinary prudent person in a like position would exercise under similar circumstances and shall consider, if relevant, the following factors:

- the duration and preservation of the investments
- the purposes of the Foundation and the investments
- general economic conditions
- the possible effect of inflation or deflation
- the expected total return from income and the appreciation of investments
- other resources of the Foundation
- the Foundation's investment policy

The policy spending rate per annum for the investments shall be not more than five percent. The amount available for appropriation during each fiscal year shall be calculated by applying the policy spending rate to the average of the previous three fiscal years' beginning period endowment values. Any special appropriation or decision not to spend the amount indicated by the spending formula must be approved in advance by the Board of Directors.

8. STUDENT LOANS RECEIVABLE

Student loans receivable are generally repayable over a maximum period of 10 years and bear interest at varying rates, 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.

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9. CAPITAL ASSETS

Changes in capital assets for the year ended September 30, 2017, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 7,485,112	\$ -	\$ -	\$ 7,485,112
Construction in progress	<u>4,454,904</u>	<u>4,217,655</u>	-	<u>8,672,559</u>
Total capital assets not being depreciated	11,940,016	4,217,655	-	16,157,671
Capital assets being depreciated:				
Land improvements	2,824,128	-	-	2,824,128
Buildings, fixed equipment, improvements, and infrastructure	93,943,034	321,853	(10,372,523)	83,892,364
Equipment and library materials	<u>14,333,140</u>	<u>513,748</u>	-	<u>14,846,888</u>
Total capital assets being depreciated	111,100,302	835,601	(10,372,523)	101,563,380
Less: Accumulated depreciation:				
Land improvements	(2,083,640)	(53,879)	-	(2,137,519)
Buildings, fixed equipment, improvements, and infrastructure	(38,135,692)	(1,849,423)	-	(39,985,115)
Equipment and library materials	<u>(9,228,243)</u>	<u>(1,075,571)</u>	-	<u>(10,303,814)</u>
Total accumulated depreciation	<u>(49,447,575)</u>	<u>(2,978,873)</u>	-	<u>(52,426,448)</u>
Total capital assets being depreciated, net	<u>61,652,727</u>	<u>(2,143,272)</u>	<u>(10,372,523)</u>	<u>49,136,932</u>
Total capital assets, net	<u>\$ 73,592,743</u>	<u>\$ 2,074,383</u>	<u>\$ (10,372,523)</u>	<u>\$ 65,294,603</u>

Interest cost capitalized in construction in progress amounted to \$99,199, for the year ended September 30, 2017.

During 2017, the University was impacted by Hurricanes Irma and Maria and certain assets sustained physical damage, were destroyed, and other assets require considerable effort to restore their service utility.

The University evaluated its capital assets for impairment and recognized a loss of \$10.4 million, based on calculations using the restoration cost approach. Under this approach, the amount of impairment is derived from the estimated costs to restore the utility of the capital asset. The estimated restoration cost using an appropriate cost index or by applying a ratio of the estimated restoration cost over estimated replacement cost to the carrying value of the capital asset.

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10. NON-CURRENT LIABILITIES

Changes in non-current liabilities for the year ended September 30, 2017, are as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Less: Amounts Due Within One Year</u>	<u>Non-current liabilities</u>
Notes payable:						
HBCU	\$ 54,681,829	\$ 5,378,334	\$ 2,002,200	\$ 58,057,963	\$ 2,234,329	\$ 55,823,634
First Bank	23,224,192	-	-	23,224,192	-	23,224,192
Other	934,313	-	227,967	706,346	107,276	599,070
Total notes payable	\$ 78,840,334	\$ 5,378,334	\$ 2,230,167	\$ 81,988,501	\$ 2,341,605	\$ 79,646,896
Accrued vacation	4,262,571	1,619,828	664,696	5,217,703	664,696	4,553,007
Other long-term liabilities	263,600	22,200	-	285,800	-	285,800
Total	\$ 83,366,505	\$ 7,020,362	\$ 2,894,863	\$ 87,492,004	\$ 3,006,301	\$ 84,485,703

11. NOTES PAYABLE

During the fiscal year 2015, the University entered into two capital project loan agreements for the medical school with HBCU under Series 2015 3-1 and Series 2015 3-2. During the fiscal year 2017, the University received advances amounting to \$5,378,334, related with Series 2015 3-1. The University also entered into a loan agreement with First Bank of Puerto Rico for a Medical School Loan. A variable rate was assigned to all the loans.

During fiscal year 2011, the University entered into two capital project loan agreements (loan agreements). Under the loan agreements, the University was authorized to drawdown advances up to \$44 million under the Series 2011-2 Bonds and up to \$16 million under the Series 2011-3 Bonds. 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 variable and calculated from the date of each advance using the long-term U.S. Treasury Rate on that day plus 22.5 basis points.

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, 2017, the amount outstanding was \$706,346. 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 GVI.

For the year ended September 30, 2017, the interest expense was \$3,107,703. This amount is included in the accompanying statement of revenues, expenses and changes in net position.

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Future principal and interest payments on notes payables are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,341,604	\$ 2,998,712	\$ 5,340,316
2019	2,910,200	2,499,325	5,409,525
2020	3,231,989	2,511,495	5,743,484
2021	3,434,484	2,400,835	5,835,319
2022	3,689,309	2,256,671	5,945,980
2023-2027	23,182,456	10,585,568	33,768,024
2028-2032	23,365,814	3,495,285	26,861,099
2032-2037	15,258,466	1,482,524	16,740,990
2038-2042	3,801,507	300,086	4,101,593
2043-2045	772,672	28,196	800,868
Total	<u>\$ 81,988,501</u>	<u>\$ 28,558,697</u>	<u>\$ 110,547,198</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, September 30, 2017, the University was in compliance with the required covenants.

12. LEASES

The University has several non-cancelable operating leases, primarily for the facilities being used by the University's Small Business Development Center and Virgin Islands Development and Disabilities ("VIUCEDD") 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, 2017, are as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2018	\$ 198,054
2019	204,982
2020	212,432
2021	67,303
Total minimum lease payments	<u>\$ 682,771</u>

Total rent expense related to these agreements amounted to \$200,752 for the year ended September 30, 2017.

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13. ACCRUED VACATIONS

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, 2017, the University had accrued \$5,217,703 for vacation.

14. RETIREMENT PLAN

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")* - 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, September 30, 2017, September 30, 2016, and -1 were \$2,515,991, \$2,503,196, and \$2,314,476, respectively.

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

Plan Description

Full time employees of the University are members of the Employees' Retirement System of the Government of the Virgin Islands ("GERS"), a cost-sharing, multiple-employer, defined benefit pension plan (the "Plan") established as of October 1, 1959 under Title 3, Chapter 27 of the Virgin Islands Code to provide retirement, death and disability benefits.

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The plan covers all employees of the Government and its component units except employees compensated on a contract, fee basis, casual, per diem or provisional and part-time employees who work less than 20 hours per week. Persons over the age of 55 may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after 10 years of service. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the plan:

- Tier I: Employees hired prior to September 30, 2005
- Tier II: Employees hired on or after October 1, 2005

Regular employees are eligible for a full-service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for Tier I members is determined by averaging the five highest years of salary the member earned within the last ten years of service, subject to the maximum salary limitation in effect during such service. Average compensation for Tier II members is determined by averaging the most recent five years of service, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation is \$65,000.

Contribution Information

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required employer contribution for Tier I and Tier II members was 20.5% of member's annual salary. Contributions to the pension plan from the University were \$1,491,530 for the year ended September 30, 2017.

Effective January 1, 2017, Tier I member contributions increased by 1% to 11% of annual salary for regular employees. Member contributions will increase an additional 1% on January 1, 2018.

Effective January 1, 2017, Tier II member contributions increased by 1% to 11.5% of annual salary for regular employees and will increase an additional 1% on January 1, 2018.

Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, GERS Board of Trustees approved an effective annual interest rate on refunded contributions of 2% per annum.

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Additional Information Regarding the Pension Plan

To obtain additional information regarding the audited financial statements of the pension plan, requests for information may be made to:

<http://www.usvigiers.com/reports/auditedfinancialreports.aspx>

Pension Plan Expense

The University's proportionate share of pension expense is computed based on the percentage of actual employer contributions to total contributions to the plan for the previous year ended September 30, 2016. Pension expense, reported for the year ended September 30, 2017, amounted to \$6,296,854.

Pension Liability

The net pension liability of the University reported as of September 30, 2016, was as follows:

<u>Total Net Pension Liability of the Plan</u>	<u>University's Proportionate Share Percentage</u>	<u>Net Pension Liability</u>
\$ 4,626,602,268	1.9869%	\$ 91,924,998

The net pension liability at September 30, September 30, 2017 was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The University's proportionate share of the net pension liability was \$91.9 million or 1.9869% of the total net pension liability of the Plan. At September 30, September 30, 2017, the University's proportion decreased by 0.001074 percentage points from its proportion reported as of September 30, 2016.

Deferred Outflows and Inflows of Resources

In computing the net pension liability, consideration was given to differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and changes of assumptions about future economic or demographic factors or other inputs are reported as deferred outflows of resources related to pensions.

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Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the University in the computation of net pension liability:

<u>University</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 2,892,172	\$ -
Net difference between projected and actual investment earnings on pension plan investments	1,106,056	106,363
Changes in assumptions	18,962,930	-
Changes in proportion and differences between contributions and proportionate share of contributions	906,573	3,806,635
Contributions subsequent to measurement date	1,491,530	-
	<u>\$ 25,359,261</u>	<u>\$ 3,912,998</u>

The University's contributions subsequent to the measurement date of \$1,491,530 will be recognized as a reduction of the net pension liability in the year ended September 30, September 30, 2017. Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ending September 30,</u>	<u>Amount</u>
2018	\$ 3,990,947
2019	3,990,947
2020	3,990,947
2021	3,990,947
2022	3,990,947

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of September 30, 2016, were as follows:

Inflation:	2.50%
Salary Increases:	3.25% including inflation
Investment rate of return:	3.20% net of pension plan investment expense, including inflation
Mortality rates:	RP-2014 Blue Collar Mortality Table
Actuarial Cost Method:	Entry Age Normal Cost Method
Expected Return:	7.0%
Municipal Bond Yield	3.06%

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Investment Rate of Return

The long-term expected rate of return of 7.0% on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date of September 30, 2016, are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Inflows</u>
Domestic equity	29 %	6.59 %
International equity	12 %	8.29 %
Fixed income	27 %	1.59 %
Cash	2 %	0.99 %
Alternatives	<u>30 %</u>	5.50 %
Total asset class	<u>100 %</u>	

Discount Rate

The discount rate used to measure total pension liability was 3.20% as of September 30, 2016. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the increases in the employee contribution rates effective January 1, 2017. Based on these assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments of 7.0% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied. As of September 30, 2016, that rate was 3.06%.

Detailed information about the pension plan's fiduciary net position is available in the separately issued GERS financial report at:

<http://www.usvigiers.com/benefits/actuarialreport.aspx>.

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15. FUNCTIONAL INFORMATION

The University's operating expenses by functional classification as of September 30, 2017, were as follows:

Functional Classification	Salaries and Benefits	Supplies and other services	Scholarship and other services	Utilities	Depreciation	Other Expenses	Total
Instruction	\$ 14,167,851	\$ 1,208,037	\$ 67,331	\$ 45,633	\$ -	\$ 72,271	\$ 15,561,123
Research	6,357,882	3,382,716	477,346	105,289	-	164,969	10,488,202
Public service	5,415,032	1,480,199	18,400	40,319	-	38,527	6,992,477
Academic support	4,745,897	992,237	326,704	1,020	-	69,722	6,135,580
Student services	3,125,063	1,099,951	25,584	439,346	-	10,967	4,700,911
Institutional Support	7,994,320	4,296,402	-	127,197	-	157,371	12,575,290
Operation/plant maintenance	4,777,785	1,804,124	-	2,220,182	-	25,005	8,827,096
Student aid	845,271	60,660	6,956,364	-	-	3,746	7,866,041
Auxiliary	1,776,562	3,506,250	117,986	337,221	-	43,114	5,781,133
Depreciation	-	-	-	-	2,978,873	-	2,978,873
Other	-	-	-	-	-	101,535	101,535
	<u>\$ 49,205,663</u>	<u>\$ 17,830,576</u>	<u>\$ 7,989,715</u>	<u>\$ 3,316,207</u>	<u>\$ 2,978,873</u>	<u>\$ 687,227</u>	<u>\$ 82,008,261</u>

16. RELATED PARTY TRANSACTIONS

As of September 30, 2017, the University and the Foundation was owed \$836,068 and \$1,024,791, respectively, 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 a component unit of the GVI.

As of September 30, 2017, the University was owed \$32,650,206 from the Foundation for payments made on its behalf. This amount is considered as inter-fund transaction and was eliminated from the balance sheet for consolidation presentation purposes between the University and the Foundation.

Appropriations received from GVI for the year ended September 30, 2017, amounted to \$20,404,581.

17. 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.

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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.

18. 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:

Coverage	Deductible	Policy Limit
Real and personal property:		
Windstorm	\$500,000 per event	\$20 million per event
Flood	\$500,000 per event	\$20 million per event
Earthquake	\$500,000 per event	\$40 million per event
All other	\$10,000 per event	\$20 million per event
Automobile		\$1 million per event
Comprehensive general liabilities		\$1 million per event
Professional liability		\$1 million per event
First excess general liability		\$900,000
Officers and Directors		\$1 million per event

Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past fiscal years. However, for the year ended September 30, 2017, the University is still negotiating with insurance companies regarding the claims filed resulting from the damages caused by Hurricanes Irma and Maria.

The University has approximately \$10.3 million in construction commitment as of September 30, 2017.

19. FINANCIAL CONDITION

The University is highly dependent on funding from the GVI to repay obligations and fund its obligations. Approximately 43% of the University's total revenues are derived from government appropriations. GVI is in a significant net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations. In January and March 2017, the matching fund bonds and gross receipts tax bonds of GVI experienced credit rating downgrades due to the financial and budgetary challenges experienced by GVI. Such

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downgrades are likely to negatively impact GVI's ability to access credit markets or to access them at supportable rates in the foreseeable future. In March 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five year plan of revenue initiatives and cost-cutting measures. The challenge of unfunded pension liabilities was addressed through increases in the contribution rates of the employers and members participating in GVI's multiple employer cost-sharing pension plan.

The administrator of the pension plan, GERS, is an independent and separate agency of GVI. To date, revenues pledged for debt service have not been significantly impacted by GVI's financial condition and it is unknown what impact, if any, GVI's financial condition will have on the University. The University's budget for fiscal year 2018 is expected to be reduced 12.5% by GVI. There can be no assurance that the GVI's actions will be sufficient to permit continued funding of the University such that its operations and activities will not be curtailed or ceased in the future.

Natural Disasters - Hurrricanes Irma and Maria

On September 6 and September 19, 2017, the United States Virgin Islands were struck by two hurricanes, Irma and Maria, respectively. The extent and severity resulted in catastrophic damage to the Territory.

As a result, substantial damage was sustained throughout the St. Thomas and St. Croix campuses, as well as the St. John Academic Center, impacting classes and normal operations, numerous computers, servers, and other technology infrastructure were destroyed. The University suffered property damages amounting \$29 million. The University had purchased commercial insurance to cover its risk of loss from destruction of assets and under these policies the University submitted an insurance claim for which there is a deductible of \$500 thousands. The University is currently negotiating its insurance settlement to the extent of the University's policy. The costs in excess of the University's policy will be absorbed by the University.

20. SUBSEQUENT EVENTS

The University is making significant progress towards restoring its facilities which were damaged by Hurricanes Irma and Maria in September 2017. The University is in the process of tabulating the associated costs and expenses with respect to remediation, clean-up, mitigation, and the restoration of services.

- The University resumed classes on October 9, 2017 (following hurricanes).
- The University's fiscal year 2019 budget has not yet been finalized, however, there have been no major reallocation of resources related to the hurricanes.

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- The University commenced the necessary repairs to the campus in January 2018. The University has spent \$3.1 million on campus restoration, with the largest project being the restoration of the West Hall Dormitory, with an actual cost to date of \$1.9 million. Major repairs have also been initiated on the Administration and Conference Center, and Sports and Fitness Center with actual costs \$364 thousand and \$322 thousand, respectively.
- The insurance provider advanced \$10 million during the fiscal year 2018, related to the 2017 hurricane claims. The final settlement is still pending.
- The University received a gift from private source of \$2 million during the fiscal year 2018.
- During the fiscal year 2018, the Department of Education allocated funds of \$11 million to the University, based on a pre-application which determined eligibility. The University is in process of submitting an application to facilitate the finalization of the award.
- During the fiscal year 2018, the University received \$721 thousand from FEMA as a reimbursement for the use of generator following the hurricanes.
- The University is pursuing the Community Disaster Loan option; however, no authorizations have been received yet.

As indicated earlier, the University insures all of its properties and is in process with the insurance provider to recover the losses related with the insured properties. In an effort to close potential shortfalls and to serve returning citizens, the University continues to work closely with Federal agencies to maximize its recovery from all available sources, subject to any sublimits and retentions. While inflows of Federal and private funds continue to bolster the reconstruction activity, the eventual amount and timing for receipt of such funds cannot be predicted at this time.

The full impact of these hurricanes on the University remains unknown at this time and therefore, it is also not yet possible for the University to estimate the impact of hurricane-related losses on revenue collections or expenditures.

The University evaluated subsequent events through October 12, 2018, the date on which the audited financial statements were available to be issued. There are no material subsequent events that would require further disclosure in the University's audited financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

UNIVERSITY OF THE VIRGIN ISLANDS
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SCHEDULE OF THE UNIVERSITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
SEPTEMBER 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
University's proportion of the Net Pension Liability	1.9869%	2.0943%	2.0471%	2.1137%
University's proportionate share of the Net Pension Liability	\$ 91,924,998	\$ 85,271,734	\$ 63,173,875	\$ 57,914,485
University's covered-employee payroll	\$ 7,515,486	\$ 7,230,037	\$ 6,526,549	\$ 6,245,067
University's proportionate share of the Net Pension Liability as a percentage of its covered-employee payroll	1223%	1179%	968%	927%
Plan net position as percentage of the total pension liability	17%	20%	27%	31%

**The amounts presented for each fiscal year are as of the measurement date (September 30) of the previous year. This schedule is intended to show a 10 year trend. Information for years before 2014, is not available.*

UNIVERSITY OF THE VIRGIN ISLANDS
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SCHEDULE OF THE UNIVERSITY'S CONTRIBUTIONS
SEPTEMBER 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 1,491,530	\$ 1,500,992	\$ 1,531,380	\$ 1,401,719
Contributions in relation to the contractually required contributions	1,491,530	1,500,992	1,531,380	1,401,719
Contribution deficiency (excess)	-	-	-	-
Covered-employee payroll	7,427,200	7,515,486	7,230,037	6,526,549
Contributions as a percentage of covered- employee payroll	20%	20%	21%	21%

**The amounts presented are for the fiscal year noted. This schedule is intended to show a 10 year trend. Information for years before 2014, is not available.*

**UNIVERSITY OF THE VIRGIN ISLANDS
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
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CFDA No.	Federal Grantor/Program or Cluster Title	Pass-through Entity Identification Number	Student Financial Assistance	Research & Development Cluster	Higher Education Institutional Aid	Small Business Development	Other Programs	Total Federal Expenditures	Award Provided to Subrecipients
	STUDENT FINANCIAL ASSISTANCE CLUSTER:								
	UNITED STATES DEPARTMENT OF EDUCATION								
	<i>U.S. Department of Education Direct Programs:</i>								
84.007	Federal Supplemental Educational Opportunity Grant		\$ 64,031	\$ -	\$ -	\$ -	\$ -	\$ 64,031	\$ -
84.033	Federal Work-Study Program		88,408	-	-	-	-	88,408	-
84.038	Perkins Loan Program:								
	Loans Outstanding as of September 30, 2017		133,094	-	-	-	-	133,094	-
84.063	Federal Pell Grant Program		4,645,011	-	-	-	-	4,645,011	-
84.268	Federal Direct Student Loan		5,003,470	-	-	-	-	5,003,470	-
	TOTAL UNITED STATES DEPARTMENT OF EDUCATION		9,934,014	-	-	-	-	9,934,014	-
	RESEARCH AND DEVELOPMENT CLUSTER:								
	UNITED STATES DEPARTMENT OF AGRICULTURE								
	<i>U.S. Department of Agriculture Direct Programs:</i>								
10.025	Plant & Animal Disease Pest Control & Animal Care		-	27,234	-	-	-	27,234	-
10.202	Cooperative Extension Service		-	26,289	-	-	-	26,289	-
10.203	Agricultural Experiment Station Under Hatch Act		-	1,195,065	-	-	-	1,195,065	-
10.308	Resident Instruction Grants for Insular Areas		-	72,398	-	-	-	72,398	32,367
10.322	Distance Education Grants for Institutions of Higher		-	193,264	-	-	-	193,264	-
10.500	Cooperative Extension Service		-	1,265,007	-	-	-	1,265,007	-
10.902	Soil & Water Conservation		-	546	-	-	-	546	-
10.905	Plant Materials for Conservation		-	375	-	-	-	375	-
	Sub total Department of Agriculture Direct Programs		-	2,780,178	-	-	-	2,780,178	32,367
	<i>U.S. Department of Agriculture Pass-through Programs:</i>								
10.170	Specialty Crop Block Program V.I. Department of Agriculture:	12-2501-0-1-352	-	-	-	-	-	-	-
	Trellis System Sustainable Pitaya	MOA SIGNED 4/5/16	-	23,094	-	-	-	23,094	-
	Evaluate Cucumber for Downy Mildew	COOP SIGNED	-	18,814	-	-	-	18,814	-
	Sweet Potato Weed Control	3/11/16	-	42,324	-	-	-	42,324	-
10.215	Sustainable Agricultural Research & Education University of Georgia:		-	-	-	-	-	-	-
	Workplan for So. Region PDP Program	RD309-129/5054786	-	3,950	-	-	-	3,950	-
	Sustainable Agriculture Research & Education-SARE	RD309-134/S001279	-	11,085	-	-	-	11,085	-
	SARE-Professional Development Program	RD309-134/S001296	-	7,122	-	-	-	7,122	-
10.304	Homeland Security-Agricultural university of Florida - Southern Plan Diag Network		-	417	-	-	-	417	-
	Sub total Department of Agriculture Pass-through Programs	UFDSP0010253	-	417	-	-	-	417	-
	TOTAL UNITED STATES DEPARTMENT OF AGRICULTURE		-	2,886,984	-	-	-	2,886,984	32,367

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CFDA No.	Federal Grantor/Program or Cluster Title	Pass-through Entity Identification Number	Student Financial Assistance	Research & Development Cluster	Higher Education Institutional Aid	Small Business Development	Other Programs	Total Federal Expenditures	Award Provided to Subrecipients
	UNITED STATES DEPARTMENT OF COMMERCE								
	<i>U.S. Department of Commerce Direct Programs:</i>								
11.427	Fisheries Development & Utilization		\$ -	\$ 66,414	\$ -	\$ -	\$ -	\$ 66,414	\$ -
11.433	Marine Fisheries Initiative		-	21,882	-	-	-	21,882	-
11.478	Center for Sponsored Coastal Ocean Research		-	29,317	-	-	-	29,317	-
11.482	Coral Reef Conservation		-	13,478	-	-	-	13,478	-
11.999	Marine Debris Program		-	40,361	-	-	-	40,361	-
	<i>Sub total Department of Commerce Direct Programs</i>		-	171,452	-	-	-	171,452	-
	<i>U.S. Department of Commerce Pass-through from:</i>								
11.417	USVI Marine Advisory - VI Marine Advisory Service FY10-12	M-151-2-10 UPR	-	88	-	-	-	88	-
	Sea Grant Support NOAA - VI Marine Advisory Service FY14-18	A-151-2-14 UPR	-	83,299	-	-	-	83,299	-
11.427	University of Puerto Rico - Fisheries Development & Utilization - Sustain & Recover PR & UVI Groups	NOAA-NMFS-FQH-2015-2004246	-	46,219	-	-	-	46,219	-
	Marine Fisheries Initiative - Filling Life Hist Info Fisheries	16-2997	-	31,158	-	-	-	31,158	-
	<i>Sub total U.S. Department of Commerce Pass-through programs:</i>		-	160,764	-	-	-	160,764	-
	TOTAL UNITED STATES DEPARTMENT OF COMMERCE		-	332,216	-	-	-	332,216	-
	UNITED STATES DEPARTMENT OF THE INTERIOR								
	<i>U.S. Department of the Interior Direct Program - Fisheries Development & Utilization</i>								
15.630	Sub total Department of the Interior Direct Program		-	6,299	-	-	-	6,299	-
	<i>U.S. Department of the Interior Pass-through from - National Park Service Conservation -</i>		-	6,299	-	-	-	6,299	-
15.954	Heal 365 Initiative	H5000105040	-	-	-	-	2,354	2,354	-
	TOTAL UNITED STATES DEPARTMENT OF THE INTERIOR		-	6,299	-	-	2,354	8,653	-
	UNITED STATES GEOLOGICAL SURVEY								
15.805	Asst. to State Water Resource Research		-	78,197	-	-	-	78,197	-
	TOTAL UNITED STATES GEOLOGICAL SURVEY		-	78,197	-	-	-	78,197	-

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CFDA No.	Federal Grantor/Program or Cluster Title	Pass-through Entity Identification Number	Student Financial Assistance	Research & Development Cluster	Higher Education Institutional Aid	Small Business Development	Other Programs	Total Federal Expenditures	Award Provided to Subrecipients
43.008	UNITED STATES NATIONAL AERONAUTICS & SPACE ADMINISTRATION U.S. National Aeronautics & Space Administration Direct Program - EDUCATION PROGRAM Sub total U.S. National Aeronautics & Space Administration Direct Program		-	470,098	-	-	-	470,098	-
43.008	U.S. National Aeronautics & Space Administration Pass-through From: EDUCATION PROGRAM College of Charleston: Develop VI Center Eitelman Observatory Effects of Watershed Development Sub total U.S. National Aeronautics & Space Administration Pass-through programs TOTAL UNITED NATIONAL AERONAUTICS & SPACE ADMINISTRATION	520999-UVI 521202-UVI	-	186,413 125,773	-	-	-	186,413 125,773	-
81.123	UNITED STATES DEPARTMENT OF ENERGY U.S. Department of Energy Pass-through From: NNSA HC-BCU Program - Norfolk State University - Consortium for K-20 Cybersecurity TOTAL UNITED STATES DEPARTMENT OF ENERGY	F10400061-14	-	294,255 294,255	-	-	-	294,255 294,255	-
47.050	UNITED STATES NATIONAL SCIENCE U.S. National Science Foundation Direct Programs: Geosciences		-	5,124	-	-	-	5,124	-
47.076	Education & Human Resources		-	1,351,489	-	-	-	1,351,489	-
47.079	Office of International & Integrative Activities Sub total U.S. National Science Foundation Direct Programs		-	3,542,291	-	-	-	3,542,291	-
47.049	U.S. National Science Foundation Pass-through From: Mathematics & Physical Sciences - Columbia University - CU Science & Engineering Center Geosciences -	GC008600	-	27,700	-	-	-	27,700	-
47.050	Arkansas State University-Jonesboro - Beyond Cleaning Symbiosis	SA15-052-16-1	-	12,090	-	-	-	12,090	-
47.050	Geosciences - Cornell University - Ionospheric Irreg Investigation II	70817-10703	-	6,543	-	-	-	6,543	-
47.050	Geosciences - Arizona State University - GOLD, Sparks for change	17-075	-	11,528	-	-	-	11,528	-

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CFDA No.	Federal Grantor/Program or Cluster Title	Pass-through Entity Identification Number	Student Financial Assistance	Research & Development Cluster	Higher Education Institutional Aid	Small Business Development	Other Programs	Total Federal Expenditures	Award Provided to Subrecipients
47.074	Biological Sciences - V.I. Department of Health - Senior Community Service Employment	GRA-131026KB	-	2,328	-	-	-	2,328	-
47.079	Office of International & Integrative Activities - University of South Florida - PIRE-Synergistic Water Energy System	2014-1185-00A	-	8,046	-	-	-	8,046	-
	<i>Sub total U.S. National Science Foundation Pass-through programs</i>		-	68,235	-	-	-	68,235	-
	TOTAL UNITED STATES NATIONAL SCIENCE FOUNDATION		-	4,967,139	-	-	-	4,967,139	-
	UNITED STATES DEPARTMENT OF HEALTH & HUMAN SERVICES								
	<i>U.S. Department of Health & Human Services Direct Programs:</i>								
93.243	Substance Abuse & Mental Health		-	1,507	-	-	-	1,507	-
93.307	Minority & Helath Disparities		-	841,532	-	-	-	841,532	-
93.859	Biomedical & Research Training		-	765,241	-	-	-	765,241	-
	<i>Sub total U.S. Department of Health & Human Services Direct Programs</i>		-	1,608,280	-	-	-	1,608,280	-
	<i>U.S. Department of Health & Human Services Pass-through from:</i>								
93.307	Minority & Health Disparities - Yale University - ECHORN	A08627	-	44,420	-	-	-	44,420	-
93.307	Transdisciplinary Collaborative - Yale University - Health Disparities Research	A10932	-	18,441	-	-	-	18,441	-
93.424	Climate ready Territories - Pass from Association of State & Territorial Health Officials - Climate-Ready Territories	62-11404	-	42,875	-	-	-	42,875	-
93.859	Biomedical & Research Training - Brown University - Training Success in Biomed Careers	00000761	-	6,267	-	-	-	6,267	-
	<i>Sub total U.S. Department of Health & Human Services Pass-through programs</i>		-	112,003	-	-	-	112,003	-
	TOTAL UNITED STATES DEPARTMENT OF HEALTH & HUMAN SERVICES		-	1,720,283	-	-	-	1,720,283	-
	OTHER PROGRAMS:								
	UNITED STATES DEPARTMENT OF AGRICULTURE								
	<i>U.S. Department of Agriculture Direct Program -</i>								
10.500	Cooperative Extension Service		-	-	-	-	118,864	118,864	-
	<i>U.S. Department of Agriculture Pass-through Programs:</i>								
	<i>Cooperative Extension Service -</i>								
10.500	University of Arkansas: 4H Military Partnership Program Media & Digital Tech Strategy	S15063-03 S21665-08	-	-	-	-	391 6,049	391 6,049	-
	TOTAL UNITED STATES DEPARTMENT OF AGRICULTURE		-	-	-	-	125,304	125,304	-

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CFDA No.	Federal Grantor/Program or Cluster Title	Pass-through Entity Identification Number	Student Financial Assistance	Research & Development Cluster	Higher Education Institutional Aid	Small Business Development	Other Programs	Total Federal Expenditures	Award Provided to Subrecipients
59.037	SMALL BUSINESS ADMINISTRATION Small Business Administration Direct Program: Small Business Development Center TOTAL SMALL BUSINESS ADMINISTRATION		-	-	-	765,880 765,880	-	765,880 765,880	-
17.504	UNITED STATES DEPARTMENT OF LABOR United States Department of Labor Program: Consultation Agreements TOTAL UNITED STATES DEPARTMENT OF LABOR		-	-	-	-	350,432 350,432	350,432 350,432	-
84.224 84.031B	UNITED STATES DEPARTMENT OF EDUCATION United States Department of Education Direct Programs: Assistance Technology Higher Education Institution Aid Sub total U.S. Department of Education Direct Programs United States Department of Education Pass-through Programs		-	-	1,992,628	-	125,984	125,984 1,992,628	-
84.367D 84.287	From: Supporting Effective Educator Development Grant - VI Writing Project 21st Century Community Learning Program - V.I. Department of Education Sub total U.S. Department of Education Pass-through Programs TOTAL UNITED STATES DEPARTMENT OF EDUCATION	21V101-SEED 4 GC071DOE14	-	-	-	-	13,400 199,332	13,400 199,332	-
93.600 93.632	UNITED STATES DEPARTMENT OF HEALTH & HUMAN SERVICES United States Department of Health Services Direct Programs: Head Start University Centers for Excellence Sub total U.S. Department of Health & Human Services Direct Programs United States Department of Health Services Pass-through Program - Public Health Training Centers - Columbia University - ACT Public Health Trainings Ctrs Sub total U.S. Department of Health & Human Services Pass-through Program TOTAL UNITED STATES DEPARTMENT OF HEALTH & HUMAN SERVICES		-	-	-	-	121,837 528,202	121,837 528,202	-
93.249		3 GG008408-03	-	-	-	-	51,872	51,872	-
			-	-	-	-	701,911	701,911	-

(continues)

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CFDA No.	Federal Grantor/Program or Cluster Title	Pass-through Entity Identification Number	Student Financial Assistance	Research & Development Cluster	Higher Education Institutional Aid	Small Business Development	Other Programs	Total Federal Expenditures	Award Provided to Subrecipients
15.875	UNITED STATES DEPARTMENT OF THE INTERIOR United States Department of the Interior Pass-through Program - Center for Sponsored Coastal Ocean Research - University of North Carolina - Climate Change Vulnerability	G0010MBT17	-	59,880	-	-	167,500	227,380	-
	TOTAL UNITED STATES DEPARTMENT OF THE INTERIOR TOTAL EXPENDITURES OF FEDERAL AWARDS		\$ 9,934,014	\$ 11,127,537	\$ 1,992,628	\$ 765,880	\$ 1,686,217	\$ 25,506,276	\$ 32,367

See accompanying notes to schedule of expenditures of federal awards.

(concluded)

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

2. LOAN PROGRAMS

During the fiscal year ended September 30, 2017, the University administered new loans related to the Federal Perkins Loan Program which are reported in the Schedule of Expenditures of Federal Awards. As there are continuing compliance requirements with respect to this loan program, the amounts are reported for loan programs on the Schedule of Expenditures of Federal Awards:

	<u>CFDA Number</u>	<u>Total Loans Outstanding as of September 30, 2017</u>
Federal Perkins Loan Program	84.038	\$ <u>133,094</u>

During the fiscal year ended September 30, 2017, the University processed \$5,003,470 of new loans under the Federal Direct Student Loans Program (CFDA No. 84.268). Only new loans made during the fiscal year ended September 30, 2017, relating to this program are reported as expended.

3. INDIRECT COST RATE

The University has a federally negotiated indirect cost agreements applicable to all programs, with an effective date of October 1, 2021.

4. 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.



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Trustees of
University of the Virgin Islands
(A Component Unit of the Government of the U.S. 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 (a Component Unit of the Government of the U.S. Virgin Islands) (the "University") as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 12, 2018.

We also included an emphasis-of-matter paragraph in our report on the financial statements related to going concern issue due to the fiscal, economic, and liquidity challenges of the Government of the US Virgin Islands and the fact that the University is reliant on the support from the Government.

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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the finding 2017-001, a deficiency described in the accompanying schedule of findings and questioned costs, to be material weakness.



To the Board of Trustees of
University of the Virgin Islands
(A Component Unit of the Government of the U.S. Virgin Islands)
Page 2

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. We consider the finding 2017-002, a deficiency described in the accompanying schedule of findings and questioned costs to be significant deficiency.

Compliance and Other Matters

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

University's Response to Findings

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

Purpose of this Report

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

B.D.O. USVI LLC

October 12, 2018
St. Thomas, U.S. Virgin Islands

SINGLE AUDIT REPORT



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
University of the Virgin Islands
(A Component Unit of the Government of the U.S. Virgin Islands):

Report on Compliance for Each Major Federal Program

We have audited the University of the Virgin Islands's (the "University") compliance with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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.



To the Board of Trustees of
University of the Virgin Islands
(A Component Unit of the Government of the U.S. Virgin Islands)
Page 2

Opinion on Each Major Federal Program

In our opinion, the University of the Virgin Islands 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-003 and 2017-004. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with 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 the Uniform Guidance, 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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.



To the Board of Trustees of
University of the Virgin Islands
(A Component Unit of the Government of the U.S. Virgin Islands)
Page 3

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item, 2017-003, which we consider to be significant deficiency.

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

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

BDO USVI, LLC

October 12, 2018
St. Thomas, U.S. Virgin Islands

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Section I - Summary of Auditor's Results

Financial Statements Section

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP (*unmodified, qualified, adverse or disclaimer*): Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
Significant deficiency(ies) identified?	<u> X </u> yes	<u> </u> no
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
Significant deficiency(ies) identified?	<u> X </u> yes	<u> </u> no

Type of auditors report issued on compliance for major federal programs (*unmodified, qualified, adverse or disclaimer*) Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
84.031 Various	Higher Education Institutional Aid Student Financial Assistance Cluster
84.287	21st Century Community Learning Program
59.037	Small Business Development Center

Dollar threshold used to distinguish between Type A and Type B programs: \$ 765,119

Auditee qualified as low-risk auditee? yes X no

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

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.

**UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding Number 2017-001

Material Weakness in Internal Controls over Compliance and Compliance with Financial Reporting Requirements

Criteria

Article 2.5, the University's Financial Policies, establishes that the accounting shall be based in general accepted accounting principles as established by the Governmental Accounting Standards Board (GASB).

Article 3.2 (G), the University's Financial Policies, establishes that all accounts and financial reports must be accurate, clear, and complete and fully consistent with generally accepted standards of accounting and reporting.

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

Condition

During our audit, we noted the following areas still need to be addressed:

- The trial balance as of September 30, 2017, was provided to us in various occasions because of significant changes made to balances and transactions resulting from analyses performed by management.
- Our audit procedures revealed that there are significant delays in producing financial statements at the year end close. Fourteen post-closing adjustments were provided to us after the audit procedures were performed. The University's management did not analyze certain balances and transactions periodically throughout the year to accelerate the account analyses and expedite the year-end closing process including:
 - ◆ Bank account balances and reconciliations
 - ◆ Long-term debt balances and transactions
 - ◆ Tuition unearned revenue and revenue recognition
 - ◆ Net pension liability and related deferred outflows and inflows
 - ◆ Investment and interfund balances and transactions
 - ◆ Impairment of capital assets
 - ◆ Accounts payable and other payables
 - ◆ Schedule of Expenditures of Federal Awards

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

The University does not periodically reconcile balances in the general ledger with the corresponding subsidiary ledgers used for the preparation of the Schedule of Expenditures of Federal Awards ("SEFA"). As part of our audit procedures, we found differences between the general ledger accounts used to prepare the SEFA and the subsidiary ledgers, which at that moment could not be reconciled. Differences were later reconciled, after extensive management review and analysis.

- As part of our audit procedures, we requested the general journal of the audit period to perform the journal entry test. In various occasions, the University provided us with the general journal report, and with the audited beginning account balances of the previous year and the ending account balance of the audit year, we performed a roll-forward to test the completeness of the transactions. However, the University was not able to provide a general journal report to enable us to prove the accuracy and completeness of the journal entries.
- As a result of our audit, we found that the Investment Fund activity as provided by the University was not properly reviewed and reconciled to the general ledger. Reviewing and reconciling the investment activity statement to the general ledger is a necessary step in ensuring that the fund is a profitable investment.
- During our audit, we found that certain accounts payable balances were not reconciled in monthly basis. We noted that the student credit balance account (GL account 21005) is over stated for \$279,396, due to transaction recorded in prior year to recognize the student credit balance analysis as of September 30, 2016. A post-closing adjustment was provided by the University, after extensive management review and analysis of those student accounts.
- During the audit, we noted that the Net Pension liability account and Deferred Outflows and Inflows of resources were not reconciled with the actuarial valuation report as of October 1, 2016 and Pension Reporting Package as of September 30, 2017.
- We noted that analysis of the impairment of capital assets was not properly complete in accordance with the accounting standards established in GASB 42. Impairment of capital assets with physical damage generally should be measured using a restoration cost approach, an approach that uses the estimated cost to restore the capital asset to identify the portion of the historical cost of the capital asset that should be written off. As part of our audit procedures, we found differences between the restoration cost used for certain facilities and its net book value balances to be adjusted. Differences were later reconciled, after extensive management review and analysis of those differences.

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Cause

This situation occurs because the University has not enforced, effective and efficient accounting and financial reporting policies and procedures to address these requirements. In addition, the University financial accounting and reporting structure is not designed to gather the necessary information efficiently and effectively to permit timely analysis of transactions and balances and proper reconciliation of accounts. The review and analyses of certain accounts are performed late in the year-end closing process.

Effect

The overall effect is that complete and accurate financial information may not be readily available, thus impacting management decisions taken throughout the year. In addition, errors or irregularities may occur and not be detected on a timely basis.

Recommendation

The University should continue its efforts to review and revise its current accounting and financial reporting structure such as the establishment or revision of policies and procedures, periodic reconciliation and analyses throughout the year and additional training to accounting personnel related to accounting and financial reporting matters including explanation of the year-end closing process.

The University should establish a formal deadline for the preparation of all Federal Awards reconciliations that should require a preparer and reviewer signoff. Also, the University should document errors found, and the disposition or investigation of such errors, if any. Finally, the University should investigate and document any reconciling item not properly explained, or that has remained for an unusual period of time without being recorded.

Views of responsible officials

In response to the 2016 Audit report and findings, the University reviewed and updated the Financial Statement Close Process. The University also hired Ms. Earlyn Casimir, Special Assistant to the Vice President for Administration and Finance, who reviewed the University's processes and recommended steps for improvement. The implementation of the updated procedures was impacted by hurricanes Irma and Maria in September 2017.

The journal entry (JE) population provided to the auditors was complete. The BANNER system allows for various formats of the JE population, based on user needs. The Banner accounting system may not have been understood by the auditors, thereby preventing them from understanding their approach to complete the procedures as they felt necessary.

UNIVERSITY OF THE VIRGIN ISLANDS
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

The University's investment reports are prepared by a separate entity, outside of the University and provided on a quarterly basis. As a result of the impact of the hurricanes, the reports were provided late, thereby impacting the University's ability to correctly record any resulting entries. This resulted in the University providing the information to the auditors, pending the post-closing entry, however, this was disclosed to the auditors at the beginning of the audit.

The University, as well as all other Government entities who participate in the GERS pension Liability program are required to await the submission of the pension package by the Department of Finance, in order to perform the necessary accounting procedures. This information was also late in reaching UVI, resulting in additional delays to the University in performing its review and recording of entries.

The University's impairment procedures were impacted by the timing of hurricanes as well as the limited supply of professional firms to perform an analysis of this undertaking in the Virgin Islands. Upon receipt of the original package an entry was recorded and provided to the auditors. In response to an additional request from the auditors, the document was appropriately updated. This did not impact the auditors' ability to review or assess impairment loss.

The University application of updated procedures related to the Financial Statement Close Process was impacted by the hurricane related delays, however, the University plans to complete implementation by September 30, 2018.

Responsible official

Earlyn Casimir, Special Assistant to the Vice President for Administration and Finance.
Sharleen Fahie, Acting Controller.

**UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding No. 2017-002

Significant Deficiency in Internal Controls over Information Technology Security - Password Implementation

Criteria

DS5.3 Identity Management - Ensure that all users (internal, external and temporary) and their activity on IT systems (business application, IT environment, system operations, development and maintenance) are uniquely identifiable. Enable user identities via authentication mechanisms. Confirm that user access rights to systems and data are in line with defined and documented business needs and that job requirements are attached to user identities. Ensure that user access rights are requested by user management, approved by system owners and implemented by the security-responsible person. Maintain user identities and access rights in a central repository. Deploy cost-effective technical and procedural measures, and keep them current to establish user identification, implement authentication and enforce access rights.

Condition

The University does not have a documented policy defining password parameters such as minimum length, periodic password change, invalid logon attempts or password history. Also, the password minimum length, periodic password change and password history parameters for Active Directory and BANNER are not set to industry recommended settings.

Cause

Password parameters are set and detailed in the EDUS Procedures Manual but not in a standalone password policy.

Effect

The inability to secure the operating system and application through appropriate logical security settings exposes the University financial information to threats, such as deliberate attacks by malicious persons or disgruntled employees to gain unauthorized access (e.g., via password capturing, guessing, cracking, etc.) to compromise system/data integrity, availability, or confidentiality. The inability may also subject the agency financial information to unintentional acts, such as negligence and errors, which circumvent system security.

**UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Recommendation

The University should implement the defined parameter's in the procedure across all operating systems and applications. The automated system should permit, at a minimum, the configuration of the following recommended minimum logical security authentication parameters:

- A password minimum length of eight (8) or greater,
- An account lockout threshold of three (3) to five (5) failed log-on attempts before lock out,
- A periodic password change interval of 30 to 90 days,
- A password history setting of eight (8) or greater.

Views of responsible officials

Password parameters are set and detailed in the EDUS Procedures Manual but not in a standalone password policy. A separate password policy will be created.

Responsible official

Ayesha Williams, Interim Assistant CIO.

**UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Section III - Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by 2 CFR 200.516(a) of the Uniform Guidance (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs and material abuse).

**UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding No. 2017-003

Significant Deficiency in Internal Controls over Compliance and Compliance with Special Reporting Requirements.

CFDA No. 84.007	Federal Supplemental Educational Opportunity Grant
CFDA No. 84.033	Federal Work Study Program
CFDA No. 84.063	Federal Direct Student Loan

Criteria

34 CFR 673.3 established that electronic report, Fiscal Operations Report and Application to Participate (FISAP), is submitted annually to receive funds for the campus-based programs. The school uses the Fiscal Operations Report portion to report its expenditures in the previous award year and the Application to Participate portion to apply for the following year. The FISAP is required to be submitted by September 30, following the end of the award year (which is always June 30).

Condition

During our audit, we examined the FISAP submitted and compared with the support provided for each line presented in the report. We noted that the total students showed as undergraduate and graduate were not the same total showed in the support provided.

<u>Students</u>	<u>FISAP</u>	<u>UVI Report</u>
Undergraduate	2,573	2,575
Graduate	224	281
Total	2,797	2,856
Difference:		59

Cause

Enrollment data reported on the FISAP is generated and reported by the Office of Institutional Research. The reports were generated at the time the FISAP was completed and submitted. During the audit review, Institutional Research provided supporting documentation for the reported FISAP numbers, but was unable to replicate an exact match. Banner records were not “frozen” and thus, differences in enrollment headcounts were noted when the supporting documentation was being recreated. The undergraduate headcount difference was 2, and the graduate headcount difference was 57.

Effect

This may result in cost disallowances for the number of over reported or under reported students.

**UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Questioned costs

None

Recommendation

The University of the Virgin Islands should immediately undertake a process to review its internal control procedures to ensure that the information included in the FISAP is correct and accurate before the submission of the report.

Views of responsible officials

Corrective actions will be taken by the Office of Institutional Research to retain the enrollment extraction files used for reporting our enrollment headcount on the FISAP. These files will be made available as supporting documentation for upcoming cycle audits. Proceeding in this manner will mitigate issues with fluid Banner student records as they are not “frozen” as outlined earlier.

Responsible official

Ms. Laurence Blake, Director of Institutional Research.

**UNIVERSITY OF THE VIRGIN ISLANDS
 (A Component Unit of the Government of the U.S. Virgin Islands)
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Finding No. 2017-004

Deficiency in Internal Controls over Compliance and Compliance with Reporting Requirements

CFDA No. 84.007	Federal Supplemental Educational Opportunity Grant
CFDA No. 84.033	Federal Work Study Program
CFDA No. 84.063	Federal Direct Student Loan

Criteria

Under the Pell Grant and ED loan programs, institutions must complete and return within 15 days the Enrollment Reporting roster file [formerly the Student Status Confirmation Report (SSCR)] placed in their Student Aid Internet Gateway (SAIG) (OMB No. 1845-0002) mailboxes sent by ED via NSLDS (OMB No. 1845-0035). The institution determines how often it receives the Enrollment Reporting roster file with the default set at every 2 months, but the minimum is twice a year. Once received, the institution must update for changes in student status, report the date the enrollment status was effective, enter the new anticipated completion date, and submit the changes electronically through the batch method or the NSLDS website. Institutions are responsible for timely reporting, whether they report directly or via a third-party servicer.

Condition

During our audit, we examined the Enrollment Reporting Submission roster filed and noted that the University submitted one report after the deadline of fifteen (15) days established by the Department of Education.

<u>Scheduled Transmission Date</u>	<u>Certification Date</u>	<u>Received Date</u>	<u>Processed Date</u>	<u>Academic Term</u>
September 10, 2017	October 3, 2017	October 3, 2017	October 11, 2017	Fall

Cause

UVI was negatively impacted due to the Hurricanes of September 2017. The timing of the Hurricanes in early September closed the University for a brief period of time, during which the scheduled enrollment report submission, September 10, 2017, was due.

Effect

This may result in cost disallowances for the number of participants for which the information was not provided on a timely basis.

Questioned costs

None

**UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Recommendation

The University should assign this specific task to an officer responsible for ensuring the timely and accurate submission of this report.

Views of responsible officials

The timing of the Hurricanes in early September closed the University for a brief period of time, during which the scheduled enrollment report submission, September 10, 2017, was due. When the University restarted its operation and semester in October, an enrollment file was submitted on October 3, 2017.

Responsible official

Ms. Monifa Potter, Registrar.

UNIVERSITY OF THE VIRGIN ISLANDS
(A Component Unit of the Government of the U.S. Virgin Islands)
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Finidng Reference Number	Finding Description	Questioned Cost	Finding Current Status
2016-001	Financial Statements Finding Activities Allowed or Unallowed and Allowable Costs/Cost Principles	None	Uncorrected (see finding 2016-001)
2016-002	Special Tests and Provisions-	\$45,024	Corrected
2016-003	Enrollment Reporting	None	Corrected