

Virgin Islands Public Television System

(A Component Unit of the Government of the United States Virgin Islands)

AUDITED FINANCIAL STATEMENTS

Years Ended September 30, 2015 and 2014

Benham & Hodge, P.C.
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Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Table of Contents

Years Ended September 30, 2015 and 2014

	<u>Page</u>
Report of Independent Auditors	1
Management's Discussion and Analysis	5
Basic Financial Statements	
Statements of Net Position	12
Statements of Revenues, Expenses and Changes In Net Position	13
Statements of Cash Flows	14
Notes to the Financial Statements	15
Supplementary Information	
Statements of Functional Expenses	31
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 <i>Government Auditing Standards</i>	33



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Report of Independent Auditors

To the Board of Directors
Virgin Islands Public Television

Report on the Financial Statements

We have audited the accompanying financial statements of the Virgin Islands Public Television System (the System), a component unit of the Government of the U.S. Virgin Islands, as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the System'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 accordance with accounting principles generally accepted 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 from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

To the Board of Directors
Virgin Islands Public Television System
Continued

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.

Basis for Qualified Opinion

The System does not maintain sufficient documentation to reconcile capital assets reported in the financial statements, to the underlying detail records. Therefore, these amounts could not be substantiated, and we were unable to determine whether they are fairly stated. Had reconciled capital asset records been available, adjustments might have been necessary to fairly state capital assets reported.

The System does not report net pension liability, pension expense as actuarially determined, and related deferred inflows and outflows of resources, if any, in accordance with Government Accounting Standards No. 68, *Accounting and Financial Reporting for Pensions*. The Employees Retirement System of the Government of the Virgin Islands, has provided estimates of the amounts to be reported, however the estimates do not include all employees of the System. Had supporting information been available as to the determination of the amounts, to fairly state net pension liability, pension expense as actuarially determined, and related deferred inflows and outflows of resources, if any, been provided, those amounts would have been reported.

Opinions

In our opinion, except for the possible effects of the matters discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System, as of September 30, 2015 and 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors
Virgin Islands Public Television System
Continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the System's basic financial statements. The statements of functional expenses on page 30 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statements of functional expenses are the responsibility of management of the System and are derived from, and relate directly to, the underlying accounting records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the basic financial statements in accordance with auditing standards generally accepted in the United States of America. In our opinion, the statements of functional expenses are fairly stated in all material respects, in relation to the basic financial statements as a whole.

To the Board of Directors
Virgin Islands Public Television System
Continued

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 2, 2016, on our consideration of the System'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 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 System's internal control over financial reporting and compliance.


Benham & Hodge, PC
St. Thomas, U.S. Virgin Islands

April 2, 2016

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Management's Discussion and Analysis

Years Ended September 30, 2015 and 2014

The purpose of the following management's discussion and analysis of the financial performance and activity of the Virgin Islands Public Television System (the System) is to help the readers understand the basic financial statements of the System for the years ended September 30, 2015 and 2014, with selected comparative information for the year ended September 30, 2013. This discussion has been prepared by management and should be read in conjunction with the basic financial statements, supplementary information and the notes thereto, which follow this section.

Reporting Entity

The System is a public corporation and an autonomous governmental instrumentality of the Government of the U.S. Virgin Islands. It owns and operates the public television station of the U.S. Virgin Islands with the call letters WTJX-TV, created by Act No. 2364 on November 15, 1968, to provide educational television services in the U.S. Virgin Islands, and to advance the general welfare, cultural development, and awareness of public affairs of the general population. The System is a member of the Public Broadcasting System (PBS), a media foundation that provides grants and services to public and non-commercial stations.

Overview of the Financial Statements

The System's financial report includes three financial statements: the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows. In addition to the three financial statements, the System has presented the Statements of Functional Expenses as supplementary information. The financial statements, and supplementary information, are prepared in accordance with accounting principles generally accepted in United States of America.

The *Statements of Net Position* report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of September 30, 2015 and 2014. The System's net position is the difference between (a) assets and deferred outflows of resources, and (b) liabilities and deferred inflows of resources. Over time, the increase or decrease in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating.

The *Statements of Revenues, Expenses and Changes in Net Position* presents information showing how the System's net position changed during the two most recent fiscal years, focusing on operating revenues and expenses, including support provided by grants from the Government of the Virgin Islands and the Corporation for Public Broadcasting (CPB).

The *Statements of Cash Flows* presents information related to cash inflows and outflows, summarized by operating, financing and investing activities. The Statements indicate the financial viability of the System to meet financial obligations as they occur.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Management's Discussion and Analysis

Years Ended September 30, 2015 and 2014

Summary of Financial Results

Statements of Net Position--Table 1 summarizes the System's Statements of Net Position as of September 30, 2015, 2014, and 2013.

Table 1: Summary of Statement of Net Position

	<u>September 2015</u>	<u>September 2014</u>	<u>September 2013</u>
Unrestricted current assets	\$ 2,293,248	\$ 1,779,323	\$ 1,658,216
Restricted current assets	116,112	43,366	597,044
Capital assets	<u>2,877,580</u>	<u>5,607,990</u>	<u>6,356,097</u>
Total assets	<u>\$ 5,286,940</u>	<u>\$ 7,430,679</u>	<u>\$ 8,611,357</u>
Current liabilities	739,140	437,209	1,518,485
Deferred inflow of resources	9,188	-	-
Total liabilities	<u>\$ 748,328</u>	<u>\$ 437,209</u>	<u>\$ 1,518,485</u>
Net position:			
Invested in capital assets	\$ 2,877,580	\$ 5,607,990	\$ 6,356,097
Restricted	116,112	43,366	597,044
Unrestricted	<u>1,544,920</u>	<u>1,342,114</u>	<u>139,731</u>
Total net position	<u>\$ 4,538,612</u>	<u>\$ 6,993,470</u>	<u>\$ 7,092,872</u>

For Fiscal Year 2015, the System's assets amounted to \$5.2 million, of which \$1.1 million represented unrestricted cash and cash equivalents, \$116 thousand represented cash and cash equivalents restricted in purpose, \$334 thousand represented trade and other receivables, \$87 thousand was due from the Government of the Virgin Islands, \$726 thousand represented prepaid expenses and \$2.9 million represented capital assets net of accumulated depreciation. Total current assets increased in fiscal year 2015 by \$586 thousand mainly due to increases in, unrestricted cash of \$241 thousand as a result of an allotment from the Government of the Virgin Islands received in September, 2015, and an increase in receivables of \$270 thousand related to a grant receivable from the United States Department of Agriculture. Total liabilities amounted to \$748 thousand and increased by \$311 thousand mainly due to capital asset purchases in connection with the grant from the United States Department of Agriculture.

For Fiscal Year 2014, the System's assets amounted to \$7.4 million, of which \$904 thousand represented unrestricted cash and cash equivalents, \$43 thousand represented cash and cash equivalents restricted in

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Management's Discussion and Analysis

Years Ended September 30, 2015 and 2014

purpose, \$63 thousand represented trade and other receivables, \$132 thousand was due from the Government of the Virgin Islands, \$678 thousand represented prepaid expenses and \$5.6 million represented capital assets net of accumulated depreciation. Total current assets decreased in fiscal year 2014 by \$432 thousand mainly due to a decrease in restricted cash of \$554 thousand as a result of payments made to the Corporation for Public Broadcasting for fiscal year 2015 dues and offset by an increase in receivables of \$132 thousand for an operating allotment due from the Government of the Virgin Islands. Total liabilities amounted to \$437 thousand and decreased by \$1.08 million mainly due to a decrease in accrued programming dues payable to Public Broadcasting Service of \$765 thousand and a decrease in accounts payable of \$230 thousand.

For Fiscal Year 2013, the System's assets amounted to \$8.6 million, of which \$988 thousand represented unrestricted cash and cash equivalents, \$597 thousand represented cash and cash equivalents restricted in purpose, \$51 thousand represented trade and other receivables, \$618 thousand represented prepaid expenses and \$6.4 million represented capital assets net of accumulated depreciation. Total current assets decreased in fiscal year 2013 by \$227 thousand mainly due to a decrease in accounts receivable of \$788 thousand as a result of grant revenues received before the fiscal year-end, and offset by an increase in restricted current assets of \$540 thousand. Total liabilities amounted to \$1.5 million and increased by \$1.1 million mainly due to an increase in accounts payable of \$262 thousand and programming dues payable to Public Broadcasting Service of \$765 thousand.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Management's Discussion and Analysis

Years Ended September 30, 2015 and 2014

Statements of Revenues, Expenses and Changes in Net Position--Table 2 summarizes the activities of the System as of September 30, 2015, 2014, and 2013.

Table 2: Summary of Statements of Revenues, Expenses and Changes in Net Position

	<u>September 2015</u>	<u>September 2014</u>	<u>September 2013</u>
Operating revenues			
Grant revenue	\$ 5,519,961	\$ 5,254,624	\$ 5,148,409
Other income	225,001	511,712	289,866
Total operating revenue	<u>\$ 5,744,962</u>	<u>\$ 5,766,336</u>	<u>5,438,275</u>
Operating expenses			
Program services	\$ 3,636,377	\$ 4,167,927	\$ 4,375,817
Management and general	1,581,134	1,697,608	1,911,302
Fundraising expenses	12,354	3,558	11,502
Total operating expenses	<u>5,229,865</u>	<u>\$ 5,869,093</u>	<u>\$ 6,298,621</u>
Non-operating revenue - interest income	<u>\$ 2,264</u>	<u>\$ 3,355</u>	<u>\$ 3,639</u>
Change in net position	<u>\$ 517,361</u>	<u>\$ (99,402)</u>	<u>\$ (856,707)</u>
Net position - beginning of year, as restated	\$ 6,993,470	\$ 7,092,872	\$ 7,745,392
<i>Prior Period Adjustments</i>	<u>(2,972,219)</u>	-	<u>204,187</u>
Net position - end of year	<u>\$ 4,538,612</u>	<u>\$ 6,993,470</u>	<u>\$ 7,092,872</u>

For Fiscal Year 2015, operating revenues of \$5.8 million reflect grants from the Government of the Virgin Islands of \$3.8 million, grants from the CPB of \$1 million, other grant awards of \$686 thousand, underwriting revenue of \$45 thousand, fundraising revenue of \$29 thousand, tower space rental income of \$115 thousand and other revenue of \$35 thousand. Operating revenues decreased by \$21 thousand from the previous year mainly due to decreases in grants from the Government of the Virgin Islands of \$298 thousand, and other revenue of \$255 thousand, offset by an increase in other grant revenues of \$532 thousand. The Corporation's expenses included programming service expense of \$3.6 million, management and general expenses of \$1.6 million, and fundraising expenses of \$12 thousand. Decreases in operating expenses of \$639 thousand, are mainly due to decreases in program service expense of \$531 thousand, decreases in management and general expense of \$116 thousand, offset by an increase in fundraising expense of \$8 thousand.

For Fiscal Year 2014, operating revenues of \$5.8 million reflect grants from the Government of the Virgin Islands of \$4.1 million, grants from the CPB of \$1 million, other grant awards of \$153 thousand,

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Management's Discussion and Analysis

Years Ended September 30, 2015 and 2014

underwriting revenue of \$140 thousand, fundraising revenue of \$24 thousand, tower space rental income of \$98 thousand and other revenue of \$249 thousand. Operating revenues increased by \$328 thousand from the previous year mainly due to an increase in other revenue of \$217 thousand, and an increase in grant revenues of \$106 thousand. The Corporation's expenses included programming service expense of \$4.2 million, management and general expenses of \$1.7 million, and fundraising expenses of \$3 thousand. Decreases in operating expenses of \$429 thousand, are mainly due to decreases in program service expense of \$208 thousand, decreases in management and general expense of \$214 thousand, and decreases in fundraising expense of \$8 thousand.

For Fiscal Year 2013, operating revenues of \$5.4 million reflect grants from the Government of the Virgin Islands of \$3.7 million, grants from the CPB of \$1.2 million, other grant awards of \$187 thousand, underwriting revenue of \$105 thousand, fundraising revenue of \$73 thousand, tower space rental income of \$76 thousand and other revenue of \$34 thousand. Operating revenues decreased by \$242 thousand from the previous year mainly due to decreases in underwriting revenue of \$124 thousand, decreases in fundraising revenue of \$49 thousand and decreases in other revenue of \$190 thousand, offset by an increase in grant revenues of \$126 thousand. The Corporation's expenses included programming service expense of \$4.3 million, management and general expenses of \$1.9 million, and fundraising expenses of \$11 thousand. Operating expenses increased by \$156 thousand, mainly due to increases in program services of \$108 thousand, increases in management and general expenses of \$86 thousand, offset by decreases in fundraising expense of \$38 thousand.

Grant Revenues

Grant Revenues: Table 3 summarizes grant revenues received through allotments from the Government of the Virgin Islands, grants from the Corporation for Public Broadcasting, and other grant revenue.

Table 3: Summary of Grant Revenues

	<u>September 2015</u>	<u>September 2014</u>	<u>September 2013</u>
Grant revenues - Government of the Virgin Islands	\$ 3,769,633	\$ 4,067,355	\$ 3,718,668
Grant revenues - Corporation for Public Broadcasting	1,064,289	1,034,096	1,242,167
Grant revenues - USDA Rural Utilities Service	525,000	-	-
Grant revenues - Public Finance Authority	95,550	-	-
Grant revenues - Other	65,489	153,173	187,574
Total grant revenues	<u>\$ 5,519,961</u>	<u>\$ 5,254,624</u>	<u>\$ 5,148,409</u>
Other operating revenues	225,001	511,712	289,866
Total operating revenues	<u>\$ 5,744,962</u>	<u>\$ 5,766,336</u>	<u>\$ 5,438,275</u>
Grants as a percentage of operating revenue	<u>96.1%</u>	<u>91.1%</u>	<u>94.7%</u>

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Management's Discussion and Analysis

Years Ended September 30, 2015 and 2014

Capital Assets

The System's capital assets include land, buildings, building improvements and equipment. Capital asset additions during the fiscal years ending September 30, 2015 and 2014 amounted to \$762 thousand and \$185 thousand.

Summary of Capital Assets--Table 4 summarizes the System's capital asset holdings as of September 30, 2015 and 2014:

Table 4: Summary of Capital Assets

	<u>September 2015</u>	<u>September 2014</u>
Land	\$ 539,540	\$ 1,258,806
Production and broadcasting equipment	7,068,169	7,716,088
Buildings and improvements	2,874,401	6,082,931
Other	1,359,584	188,334
Total capital assets	<u>\$ 11,841,694</u>	<u>\$ 15,246,159</u>
Accumulated depreciation	8,964,115	9,638,169
Total accumulated depreciation	<u>\$ 8,964,115</u>	<u>\$ 9,638,169</u>
Net capital assets	<u>\$ 2,877,579</u>	<u>\$ 5,607,990</u>

Note 4 provides detailed information regarding the capital assets of the System as of September 30, 2015 and 2014.

Budgetary Analysis

The System prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. Following is a summary of the budget and actual results for the fiscal year ending September 30, 2015:

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Management's Discussion and Analysis

Years Ended September 30, 2015 and 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Total operating revenues	5,747,400	\$ 4,833,922	\$ (913,478)
Total operating expenses	(5,747,400)	(4,702,445)	1,044,956
Non-budgeted revenues	-	914,503	914,503
Non-budgeted expenditures	-	(520,193)	(520,193)
Operating income (loss)	<u>\$ -</u>	<u>\$ 525,787</u>	<u>\$ 525,788</u>

The decrease in Governmental & CPB support is mainly due to a decrease in the Government funding of \$913 thousand. Non-budgeted revenues consists of additional grants received amounting to \$686 thousand, underwriting revenue of \$45 thousand, tower space rental revenue of \$115 thousand, and other revenue of \$64 thousand. The decrease in operating expenses of \$1 million is mainly due to decreases in salaries and related expenses of \$730 thousand, and equipment of \$267 thousand offset by an increase in legal fees of \$119 thousand.

Significant Currently-Known Facts

The ability of the System to continue providing public television services is dependent on grant allotments received from the Government of the Virgin Islands and the Corporation for Public Broadcasting.

Contacting the Corporation

This financial report is designed to provide a general overview of the System's finances. If you have any questions about this report, or need additional information, contact the System at: Virgin Islands Public Television System - WTJX, P. O. Box 7879, Charlotte Amalie, St. Thomas, U.S. Virgin Islands 00801.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Statements of Net Position

	September 30,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,146,312	\$ 904,925
Accounts receivable	333,980	63,396
Due from the Government of the Virgin Islands	86,861	132,377
Prepaid expenditures	726,095	678,625
Restricted cash	116,112	43,366
Total current assets	2,409,360	1,822,689
Noncurrent assets:		
Capital assets, net of accumulated depreciation	2,877,580	5,607,990
Total noncurrent assets	2,877,580	5,607,990
 Total assets	 5,286,940	 7,430,679
Liabilities		
Current liabilities:		
Accounts payable	363,939	52,031
Accrued liabilities	93,670	82,782
Compensated absences - due within one year	281,531	302,396
Total liabilities	739,140	437,209
Deferred inflow of resources		
Unearned revenue	9,188	-
Total deferred inflow of resources	9,188	-
 Total liabilities and deferred inflow or resources	 748,328	 437,209
Net position		
Invested in capital assets	2,877,580	5,607,990
Restricted	116,112	43,366
Unrestricted	1,544,920	1,342,114
Total net position	\$ 4,538,612	\$ 6,993,470

See accompanying notes.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Statements of Revenues, Expenses and Changes in Net Position

	Years Ending September 30,	
	2015	2014
Operating revenues:		
Grants - Government of the Virgin Islands	\$ 3,769,633	\$ 4,067,355
Grants - Corporation Public Broadcasting	1,064,289	1,034,096
Grants - Other	686,039	153,173
Underwriting	45,438	140,210
Fundraising	29,478	24,281
Tower space rental	115,100	97,779
Advertising	2,450	5,047
Member subscriptions and other donations	14,730	9,814
Other operating revenue	17,805	234,581
Total operating revenues	5,744,962	5,766,336
Operating expenses:		
Program services	3,636,377	4,167,927
Management and general	1,581,134	1,697,608
Fundraising expenses	12,354	3,558
Total operating expenses	5,229,865	5,869,093
Operating income (loss)	515,097	(102,757)
Non-operating revenue:		
Interest income	2,264	3,355
Total non-operating revenue:	2,264	3,355
Change in net position	517,361	(99,402)
Net position at beginning of year	6,993,470	7,092,872
Prior period adjustment	(2,972,219)	-
Net position at end of year	\$ 4,538,612	\$ 6,993,470

See accompanying notes.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Statements of Cash Flows

	Years Ending September 30,	
	2015	2014
Cash flows from operating activities		
Receipts from grants, customers and others	\$ 5,519,893	\$ 5,621,676
Payments to suppliers and employees, net of capitalized expenses	(4,446,023)	(6,164,936)
Net cash provided by (used in) operating activities	1,073,870	(543,260)
Cash flows from investing activities		
Purchase of capital assets	(762,001)	(185,011)
Disposal of capital assets	-	87,770
Interest income	2,264	3,355
Net cash (used in) investing activities	(759,737)	(93,886)
Net change in cash and cash equivalents	314,133	(637,146)
Cash and cash equivalents at beginning of year	948,291	1,585,437
Cash and cash equivalents at end of year	\$ 1,262,424	\$ 948,291
Cash and cash equivalents include:		
Unrestricted cash and cash equivalents	\$ 1,146,312	\$ 904,925
Restricted cash and cash equivalents	116,112	43,366
	\$ 1,262,424	\$ 948,291
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	\$ 515,097	\$ (102,757)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation	520,194	845,349
Change in assets and liabilities:		
Accounts receivable	(270,585)	(12,283)
Due from the Government of the Virgin Islands	45,515	(132,378)
Prepaid expenses	(47,470)	(59,915)
Accounts payable	311,908	(229,725)
Accrued liabilities	10,888	(91,085)
Accrued programming dues	-	(765,025)
Unearned revenues	9,188	-
Accrued compensated absences	(20,865)	4,559
Total adjustments	558,773	(440,503)
Net cash provided by (used in) operating activities	\$ 1,073,870	\$ (543,260)

See accompanying notes.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The Virgin Islands Public Television System (the System) was created by Act No. 2364 on November 15, 1968, to provide educational television services in the United States Virgin Islands, and to advance the general welfare, cultural development, and awareness of public affairs of the general population. In December 2014, the System expanded operations to include a public education radio station, WTJX-FM. The radio station promotes educational, general welfare and cultural programming including National Public Radio programming.

The System was formed as a public corporation, and is an autonomous component unit of the Government of the Virgin Islands. The System's Board of Directors consists of the Commissioner of the Department of Education, the Chairman of the Board of Education, the President of the University of the Virgin Islands, the Director of the Office of Management and Budget, three members appointed by the President of the Legislature, and four other members appointed by the Governor. The call letters of the System are WTJX, and it is a member of the Public Broadcasting System (PBS), a media foundation that provides grants and services to public and non-commercial television stations.

Summary of Significant Accounting Policies

The System prepares its financial statements in conformity with U.S. generally accepted accounting principles for governmental enterprise funds as prescribed by the Government Accounting Standards Board (GASB). In accordance with GASB Statement Number 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the System does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989.

The financial statements of the System have been prepared 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.

Basic Financial Statements

Standards for external financial reporting require that resources be classified for accounting and reporting purposes into net position categories and to report the change in net position. Net position is the residual of all other elements presented in the Statement of Net Position. It is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources and consists of the following categories:

Net investment in capital assets: This category of net position consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of mortgages or notes attributable to the acquisition, construction or improvement of those assets.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

1. Summary of Significant Accounting Policies (continued)

Basic Financial Statements (continued)

Restricted component of net position: This category consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets.

Unrestricted component of net position: This category consists of the net amount of the assets, deferred outflows of resources, liabilities and deferred inflows of resources that are not included in the determination of net investment in capital assets, or the restricted component of net position.

The System distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from services provided in connection with the System's community and education based television system. The principal operating revenues of the System are grants, including grants from the Government of the Virgin Islands and grants from the Corporation for Public Broadcasting (CPB), underwriting, fundraising, tower space rental and advertising. Operating expenses include program services, management and general expenses, and fundraising expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, and then unrestricted resources as they are needed.

Cash and Cash Equivalents

All deposits of the System are made in board-designated official depositories. The System may designate, as an official depository, any bank or savings association whose principal office is located in the United States Virgin Islands. Also, the System may establish time deposit accounts such as certificates of deposits.

The System's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The System receives periodic cash allotments from the CPB, which are held in a separate bank account and are reported as restricted cash and cash equivalents.

Under Virgin Islands law, government public funds are required to be deposited into accounts that are collateralized by security bond collateral that is satisfactory to the Commissioner of Finance. As of September 30, 2015 and 2014, cash and cash equivalents held at banks were fully collateralized.

Accounts Receivable

All trade and grant receivables are reported as assets of the System.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

1. Summary of Significant Accounting Policies (continued)

Prepaid Expenses

Certain cash outlays to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the statement of net position and are expensed as the items are used or the expense is realized.

Capital Assets

Capital assets, which include property, plant, and equipment assets, are reported in the financial statements at the time of acquisition or donation. Acquired capital assets are reported at cost at the date of purchase or construction, and donated assets are reported at appraised fair value at the date of donation. Only assets with an initial, individual cost, or fair market value, of more than \$5,000 are capitalized. The costs of normal maintenance and repairs that do not add to the value of the assets, or materially extend the life of assets are not capitalized. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight-line method by groups or classes of property over the following expected service lives:

	<u>Years</u>
Production & Broadcasting Equipment	5 – 7
Buildings & Improvements	5 - 40
Other	5 – 15

When assets are retired, the cost and related accumulated depreciation of the property is removed from the accounts and any gain or loss is recognized as non-operating revenue or expense.

Accounting standards require management to disclose and report the impairment of capital assets, and any related insurance recoveries. The organization periodically evaluates whether there has been an impairment of capital assets.

Compensated Absences

Employees are eligible under personnel policies established by the Government of the Virgin Islands to accrue annual leave (up to 480 hours) if not used during the fiscal year. Unpaid annual leave is accrued as a liability of the System, as well as the System's share of related social security taxes and retirement system contributions, if the compensated absence is attributable to past service and it is probable that the System will compensate the employee for the benefits. The amount of compensated absences is computed using salary rates in effect at September 30th. As of September 30, 2015 and 2014, the System reported accrued compensated absences amounting to \$281,531 and \$302,396, respectively.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

1. Summary of Significant Accounting Policies (continued)

Retirement Plan

The System's full-time employees participate in the Employees' Retirement System of the Government of the Virgin Islands (GERS), a single employer defined benefit retirement system, established by the Government of the Virgin Islands to provide retirement, death and disability benefits to its members in accordance with the Virgin Islands Code Title 3, Chapter 27. Employees are classified as Tier I and Tier II. Tier I employees were hired on or before September 30, 2005 and Tier II employees were hired on or after October 1, 2005.

Contribution rates to the retirement plan for regular employees vary based on classification as Tier I or Tier II. Prior to January 1, 2015 the rate for employer contributions was 17.5%, and employee contributions were 8% and 8.5% for Tier I and Tier II employees. Changes to the contribution rates are as follows:

	<u>Tier I Employees</u>	<u>Tier II Employees</u>
As of January 1, 2015:		
Employer Contributions	20.5%	17.5%
Employee Contributions	9.0%	8.5%
As of February 5, 2015:		
Employer Contributions	20.5%	20.5%
Employee Contributions	9.0%	9.5%
As of January 1, 2016:		
Employer Contributions	20.5%	20.5%
Employee Contributions	10.0%	10.5%
As of January 1, 2017:		
Employer Contributions	20.5%	20.5%
Employee Contributions	11.0%	11.5%

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

1. Summary of Significant Accounting Policies (continued)

Other Post-Employment Benefits (OPEB)

All employees who are eligible for service retirement with GERS are eligible for certain other post-employment benefits (OPEB) including retiree health care, dental and life insurance benefits under Title 3, Chapter 25, Subchapter VIII of the Virgin Islands Code. These benefits are provided in accordance with Virgin Islands law as part of a cost-sharing, multiple employer defined benefit OPEB plan, in which all component units of the primary Government participate and contribute. All employees of the System who retire from government service after attaining age 55 with at least 30 years of service are eligible for benefits. Participants in the plan may elect coverage for their spouses and dependent children. Participants are required to contribute 35% of medical, prescription and dental premiums. The plan is a non-funded pay-as-you-go plan, and expenditures are paid by the Government of the Virgin Islands as they become due.

Operating Revenues and Expenses

Operating revenues and expenses generally result from providing services in connection with the System's principal ongoing operations, mainly the production of educational and cultural programs. The System also recognizes grants received as operating revenue. Operating expenses for the System include cost of services, administrative expenses, and depreciation on capital assets.

Donated Goods and Services

The System's success in conducting its mission is dependent on attracting committed Virgin Islands residents to serve as volunteers to the System's program services and fund raising campaigns. The System maintains supporting documentation of donated services and goods, and the amounts are included in the System's financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, deferred inflows, liabilities, deferred outflows and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

The System is an autonomous component unit of the Government of the Virgin Islands that is exempt from federal income tax, Virgin Islands income tax, gross receipts taxes and property taxes.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

1. Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Standards

The Government Accounting Standards Board has issued the following statements that the System has not yet adopted:

<u>Statement Number</u>		<u>Required in Fiscal Year</u>
72	Fair Value Measurement and Application	2016
73	Accounting and Financial Reporting for Pensions and Related Assets Not Within the Scope of GASB Statement 68	2017
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	2016
77	Tax Abatement Disclosures	2017
78	Pensions Provided Through Certain Multi-Employer Defined Benefit Pension Plans	2017
79	Certain External Investment Pools and Pool Participants	2016
80	Blending Requirements for Certain Component Units - An Amendment of GASB Statement No. 14	2017

The impact of these statements has not yet been determined by the System.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

2. Cash and Cash Equivalents

The System maintains unrestricted cash and cash equivalents including: (i) allotments from the Government of the Virgin Islands, (ii) Special Productions including underwriting, donations, and other fundraising activities, (iii) Emergency Maintenance funded from rental income of an up-link television broadcasting tower located in St. Thomas, (iv) Certificate of Deposit held as a reserve and (v) a petty cash account.

Restricted cash and cash equivalents consist of CPB funding restricted for the use of CPB television productions broadcasted in the Virgin Islands.

As of September 30, 2015 and 2014, cash and cash equivalents consisted of the following deposits in banks, and certificate of deposit:

	September 30	
	2015	2014
Restricted:		
Corporation for Public Broadcasting	\$ 116,112	\$ 43,366
Restricted cash and cash equivalents	\$ 116,112	\$ 43,366
Unrestricted:		
Government of the Virgin Islands	563,765	260,503
Special Productions	103,645	62,209
Emergency Maintenance	155,151	159,755
Petty Cash	600	570
Certificate of Deposit	323,151	421,888
Unrestricted cash and cash equivalents	\$ 1,146,312	\$ 904,925
Total Cash & Cash Equivalents	\$ 1,262,424	\$ 948,291

Concentration of credit risk: The System utilizes one financial institution located in the United States Virgin Islands.

Credit risk: Depository balances are fully collateralized with collateral satisfactory to the Commissioner of Finance.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

3. Accounts and Other Receivables

Accounts and other receivables at September 30, 2015, and 2014 consisted of the following:

	September 30	
	2015	2014
Underwriting	\$ 9,238	\$ 38,412
Grants	302,068	-
Rent	15,698	15,500
Other	6,976	9,484
Total receivables	\$ 333,980	\$ 63,396

As of September 30, 2015 and September 30, 2014, the System had an outstanding receivable due from the Government of the Virgin Islands, a related party, amounting to \$86,861 and \$132,377 respectively.

4. Capital Assets

Capital assets at September 30, 2015 are comprised of the following:

	Balance at September 30, 2014	Additions	Transfers	Balance at September 30, 2015
Non-Depreciable Assets:				
Land	\$ 1,258,806	\$ -	\$ (719,266)	\$ 539,540
Total non-depreciable assets	1,258,806	-	(719,266)	539,540
Depreciable Assets:				
Production & Broadcasting Equipment	7,716,088	649,172	(1,297,091)	7,068,169
Buildings & Improvements	6,082,931	12,279	(3,220,809)	2,874,401
Other	188,334	100,550	1,070,700	1,359,584
Total depreciable assets	13,987,353	762,001	(3,447,200)	11,302,154
Less: Accumulated Depreciation				
Accumulated depreciation	9,638,169	520,193	(1,194,247)	8,964,115
Total depreciable assets, net	4,349,184	241,808	(2,252,953)	2,338,039
Total Capital Assets, Net	\$ 5,607,990	\$ 241,808	\$ (2,972,219)	\$ 2,877,579

Depreciation expense for the years ending September 30, 2015 and 2014 amounted to \$520,194 and \$845,349, respectively. Transfers represents adjustments by management for changes in the depreciable value of items previously considered as capital assets.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

5. Programming Dues

The System is a member station of the Public Broadcasting System (“PBS”). PBS offers programming designed to expand the minds of children, documentaries, non-commercial news programs, and programs designed to expose American listeners to music, theatre, dance and art. Dues for the member year of July 1, 2015 through June 30, 2016 amounted to \$840,193, paid as of September 30, 2015. Dues for the member year of July 1, 2014 through June 30, 2015 amounted to \$771,331, with \$771,331 paid as of September 30, 2014. Programming expense for the fiscal years ending September 30, 2015 and 2014 amounted to \$927,706 and \$1,016,235.

6. Grant Revenue

The System receives two main sources of grant revenue: (i) appropriations from the Government of the Virgin Islands to pay salaries and related expenses and operating expenditures, and (ii) grants from the Corporation for Public Broadcasting (CPB) to provide funding for the System’s member dues to the Public Broadcasting System, salaries and related benefits and operating expenses. The System received a USDA Rural Digital Grant award in the amount of \$750,000 of which \$525,000 was utilized during the fiscal year. The System was also appropriated a capital grant of \$136,500 from the Public Finance Authority for the purchase of equipment of which \$95,550 was received during the fiscal year.

For the fiscal years ending September 30, 2015 and 2014, the System received the following grant revenue from these organizations:

	September 30	
	2015	2014
Government of the Virgin Islands	\$ 3,769,633	\$ 4,067,355
Corporation for Public Broadcasting	1,064,289	1,034,096
USDA Rural Utilities Service	525,000	-
Public Finance Authority - Capital Grant	95,550	-
Other	65,489	153,173
Total grant revenues	\$ 5,519,961	\$ 5,254,624

During the years ended September 30, 2015 and 2014, the Government of the Virgin Islands supported \$2,270,197 and \$2,501,211 in salary and related costs through its appropriations to the System.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

7. Prior Period Adjustment

For the fiscal year ending September 30, 2015, the System reported a prior year adjustment in the amount of \$2,972,219, which represents the net of capital assets.

8. Commitments and Contingencies

The System derives most of its operating revenue from grants provided by the local Government and the Corporation for Public Broadcasting. The continuing operation of the System is dependent on a continuation of grants for sustainable operations.

During the year ended September 30, 2015, the System entered into trade agreements with Cardow Jewelers and the Virgin Islands Waste Management Authority to provide underwriting services in exchange for promotion gifts and trash removal service. The amount of the agreements were \$6,000 and has been reported as underwriting revenue and advertising and repair and maintenance-garbage expense in the System's financial statements.

The Government of the Virgin Islands Division of Property and Procurement provides casualty insurance on System assets under a blanket insurance policy covering both the primary Government and certain autonomous agencies.

The Government's defined benefit pension plan has not been actuarially funded in accordance with statutory obligations. The actuaries of the plan estimate that the life of the plan is ten years without the implementation of pension reform measures.

9. Retirement Plan

GERS is the administrator of a single-employer, defined benefit pension plan established as of October 1, 1959 by the Government to provide retirement, death, and disability benefits to its employees, and includes employees of judicial, executive and legislative branches of government including component units. The plan covers all employees of the Government 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.

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. Members who are considered "safety employees," as defined in the V.I. Code, are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 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. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and upon the completion of 6 years of credited service as a member of the Legislature.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

9. Retirement Plan (continued)

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, except for senators and judges, whose annual salary is used.

GERS is a blended component unit of the primary Government and issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees' Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, St. Thomas, Virgin Islands 00802.

During the fiscal year, the System implemented Governmental Accounting Standard Board Statement 68, "Accounting and Financial Reporting for Pensions (GASBS 68). This standard requires the System to report its allocable share of net pension liability related to the Government's defined benefit pension plan, to report pension expense based on actuarial computations, to report deferred outflows of resources, and to restate opening net position for the liability as of September 30, 2014. Management has determined that the estimate provided by GERS does not include all employees of the System. Legal counsel for the Virgin Islands Public Television System is determining why all employees were not included, and which employees, if any, should be included. Information is not available to fairly state the net pension liability of the System as of September 30, 2015 and 2014. Following is a summary of the information provided by GERS regarding the implementation of GASBS 68 for the system:

Pension Liability: The components of the System's net pension liability, as estimated by GERS, were as follows for the years ended September 30, 2015 and 2014:

<i>Pension Liability</i>	GERS Net Pension Liability	System's Allocable Percentage	System's Estimated Pension Liability
September 30, 2014	\$ 2,739,957,667	0.0561%	\$ 1,537,116
September 30, 2015	\$ 3,086,018,012	0.0503%	\$ 1,552,267

The total net pension liability of GERS at September 30, 2015 and 2014 was determined by an actuarial valuation as of September 30, 2014 and October 1, 2013. The System's proportion of the net pension liability was determined based on a projection of its long-term share of contributions to the pension plan, relative to the projected contributions of all participating reporting units, as actuarially determined.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

9. Retirement Plan (continued)

Deferred Outflows and Inflows of Resources: In computing the net pension liability, consideration was given to economic and demographic factors which may cause differences between expected and actual results, and deferred outflows and inflows of resources to be amortized to future periods.

Following is a schedule of deferred outflows and deferred inflows computed by GERS to be allocated to the System in the computation of net pension liability:

<i>VI Public Television System</i>	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 14,453	\$ -
Net difference between projected and actual investment earnings on pension plan investments	11,110	-
Changes in assumptions	97,191	-
Changes in proportion and differences between contributions		
And proportional share of contributions	(31,784)	-
Total deferred outflows and inflows of resources	\$ 90,970	\$ -

The difference between expected and actual experience with regard to economic and demographic factors is amortized over the weighted average of the expected remaining service life of active and inactive members which is 5 years. The collective amount of difference between expected and actual experience for the fiscal year ending September 30, 2014 was \$35.9 million. The first year of amortization of \$7.18 million is recognized in pension expense with the remaining amount of \$28.7 million deferred, with 0.0503% allocated to the System in the amount of \$14 thousand.

The net difference between projected and actual investment earnings compared to the plan's expected rate of 7.5% is amortized over a closed period of 5 years. The collective difference of \$27.6 million at September 30, 2014 was amortized by \$5.5 million for a deferred amount of \$22.1 million, with 0.0503% allocated to the System in the amount of \$11 thousand.

The change in assumptions about future economic and demographic factors or other inputs is amortized over the weighted average of the expected remaining service life of active and inactive members which is 5 years. The collective amount of change in assumptions for fiscal year ending September 30, 2014 was \$241.5 million. The first year of amortization of \$48.3 million is recognized in pension expense with a deferred amount of \$193.2 million, with 0.0503%, or \$97 thousand, allocated to the primary Government.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

9. Retirement Plan (continued)

The change in employer proportionate share is the amount of difference between the employer proportionate share of net pension liability in the prior years compared to the current year. The change in proportion is amortized over the weighted average of the expected remaining service life of active and inactive members which is five years. The allocable amount of change in employer proportionate share is \$32 thousand.

The collective deferred outflows of resources, other than the difference between the projected and annual earnings on the Plan investments, are amortized into pension expense over a closed period, which reflects the weighted average remaining service life of all plan members, beginning the year in which the deferred cost occurs. The amortization period is five years for deferred amounts arising in the year ending September 30, 2014. The annual difference between the projected and actual earnings on investments is amortized over a five year closed period beginning the year in which the difference occurs. The cumulative amounts of collective net deferred outflows of resources reported as of September 30, 2015 will be recognized in pension expense as follows (expressed in thousands):

<i>Future Amortization of Deferred Net Outflows</i>		
<i>Year Ending September 30:</i>	GERS Deferred Outflows	System Deferred Outflows
2016	\$ 61,010,965	\$ 22,742
2017	\$ 61,010,965	\$ 22,742
2018	\$ 61,010,965	\$ 22,743
2019	\$ 61,010,965	\$ 22,743
Total deferred outflows of resources	\$ 244,043,860	\$ 90,970

Actuarial Assumptions: Actuarial Assumptions used in the computation of pension liability and deferred outflows of resources were as follows:

Inflation:	2.85%
Salary Increases:	4.00% including inflation
Investment rate of return:	4.42% net of pension plan investment expense, including inflation
Mortality rates:	RP-2000 Healthy Annuitant Mortality Table set forward 2 years.
Funding method:	Entry Age Normal Cost using the level percent of salary funding method.

Investment Rate of Return: The long-term expected rate of return of 7.5% 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.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

9. Retirement Plans (continued)

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, 2014 are summarized in the following table:

<i>Asset Class</i>	Target Allocation	Long-Term Expected Real Rate Of Inflows
Domestic Equity	45%	6.99%
International Equity	10%	7.49%
Fixed Income	40%	2.59%
Alternatives	5%	4.29%
Total Asset Class	100%	

Discount Rate: The discount rate used to measure total pension liability was 4.42% as of September 30, 2014 and 4.87% as of September 30, 2013. 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, 2015, 2016 and 2017. Using the above assumptions, GERS fiduciary net position is not projected to be available to make all projected future benefit payments to current plan members. The plan has used a long-term expected rate of return on pension plan investments of 7.5% 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, 2014, that rate was 4.11%.

The discount rate to measure the total pension liability as of September 30, 2013 (the measurement date for fiscal year ending September 30, 2014), was developed using the same method as described above, but a 20-Year AA Municipal Bond Index of 4.53% as of September 30, 2013 was applied to those periods where projected benefit payments were not covered by projected assets.

Sensitivity to Changes in the Discount Rate: Following is a schedule of net pension liability for the System calculated using the discount rate of 4.42%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (3.42%) or one percentage point higher (5.42%) than the current rate:

<i>Allocable Share for the System</i>	1% Decrease (3.42%)	Current Discount (4.42%)	1% Increase (5.42%)
Net pension liability	\$ 1,802,353	\$ 1,552,267	\$ 1,340,816

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Notes to the Financial Statements

September 30, 2015 and 2014

10. Subsequent Events

On July 30, 2015 the Legislature of the Virgin Islands through Act 774 officially changed the name of the Virgin Islands Public Television System to the Virgin Islands Public Broadcasting System. The change is effective November, 2015.

The System has performed a review of subsequent events through April 2, 2016, and concluded there were no additional events or transactions that occurred during this period that required recognition or disclosure in the financial statements.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Supplementary Information

Years Ended September 30, 2015 and 2014

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

Statements of Functional Expenses

	Years Ending September 30,	
	2015	2014
Program Services		
Depreciation	\$ 364,135	\$ 591,744
Employee benefits	230,564	235,299
Programming	927,706	1,016,235
Repairs and maintenance	57,116	5,763
Retirement contributions	266,410	287,208
Salaries	1,555,995	1,753,814
Travel	44,902	39,559
Utilities	189,549	238,305
Total program services	<u>3,636,377</u>	<u>4,167,927</u>
Management and General		
Advertising	23,473	61,967
Automobile	38,181	57,898
Computer supplies	8,667	9,519
Depreciation	156,058	253,605
Employee benefits	47,878	40,791
Equipment rental and maintenance	14,509	12,681
Insurance	79,691	79,194
Meetings and conferences	65,899	59,195
Miscellaneous	15,195	18,236
Office expense	28,606	33,858
Payroll taxes	153,198	178,503
Postage and freight	21,181	34,090
Printing and publications	34,799	47,027
Professional fees	179,772	163,009
Repairs and maintenance	72,048	7,270
Retirement contributions	46,928	34,480
Salaries	326,739	355,651
Security	20,758	9,842
Small equipment	23,549	-
Subscriptions and memberships	45,003	20,056
Telephone and internet service	85,642	103,362
Utilities	93,360	117,374
Total management and general expenses	<u>1,581,134</u>	<u>1,697,608</u>
Fundraising		
Fundraising expense	<u>12,354</u>	<u>3,558</u>
Total fundraising expense	<u>12,354</u>	<u>3,558</u>
Total expenses	<u>\$ 5,229,865</u>	<u>\$ 5,869,093</u>

See accompanying notes.

Virgin Islands Public Television System
(A Component Unit of the Government of the United States Virgin Islands)

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*

Years Ended September 30, 2015 and 2014



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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 Directors
Virgin Islands Public Television System

We have audited, in accordance with the 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, the financial statements of the Virgin Islands Public Television System (the System) as of and for the years ended September 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued a qualified report thereon dated April 2, 2016. The report was qualified as the System does not maintain adequate documentation supporting capital assets and certain other operating revenues reported in the financial statements.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is 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 following deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses: Finding 2015-1.

To the Board of Directors
Virgin Islands Public Television System
Continued

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 following deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies: Finding 2015-2 through Finding 2015-6.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section, and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free from 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 did not disclose instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Virgin Islands Public Television System's Responses to Findings

The System's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The System's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

To the Board of Directors
Virgin Islands Public Television System
Continued

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 results of that testing, and not to provide an opinion on the effectiveness of 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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Benham & Hodge, PC
St. Thomas, U.S. Virgin Islands

April 2, 2016

Virgin Islands Public Television System

Schedule of Findings and Responses

As of and for the Fiscal Years Ended September 30, 2015 and 2014

Internal Control Over Financial Reporting – Material Weakness

Finding 2015-1: The System has reported capital assets consisting of land, buildings, production and broadcasting equipment, vehicles and other assets amounting to \$2,877,579 for the fiscal year ended September 30, 2015, and \$5,607,990 for the fiscal year ended September 30, 2014, net of depreciation. Management was unable to provide detailed supporting records for the reported capital assets and was unable to reconcile capital assets per the module reported on the financial statements to current year insurance policies for either fiscal year. Certain capital assets are insured by the Government of the Virgin Islands umbrella policy, but management was unable to provide documentation of the specific assets subject to that coverage. Because of inadequate supporting documentation, we were unable to provide an opinion on the amounts reported, and the System has received a qualified audit opinion for this exception. We recommend that the System take the steps necessary to ascertain the existence and valuation of all capital assets, perform annual inventories of assets, and review the annual depreciation cost for each asset. Ownership of assets should be documented through deeds, vehicle registrations and tagged inventory records. Insurance coverage should be verified and compared to the annual asset listings. Impaired and obsolete asset should be identified and adjusted accordingly.

Management Response 2015-1: Management concurs with this finding. We will sit with the auditors in the upcoming weeks and produce a detailed strategy to correct this weakness. We plan to give the board updates throughout the year as to our progress in executing the plan.

Virgin Islands Public Television System

Schedule of Findings and Responses

As of and for the Fiscal Years Ended September 30, 2015 and 2014

Internal Control Over Financial Reporting – Significant Deficiencies

Finding 2015-2: The System has entered into certain lease agreements for tower space. We noted that certain tower rental lessees did not have current contract agreements. Also, there were no cut-off procedures to determine rental income accruals at year-end. We recommend that the System enter into written contract agreements for all tower rental arrangements, review the terms and amounts of lease payments, and ensure there are proper accruals of rental income at year-end.

Management Response 2015-2: Management concurs with the finding that certain tower rental lessees did not have current contract agreements. The lapse in renewing the contracts resulted from Management decision to assess the integrity of the System's tower prior to renewing tower space leases. With the exception of one tower rental lease agreement, all other operating lease agreements are current in FY 2016.

Finding 2015-3: The System invoices customers for advertising, underwriting, and tower space lease payments. Although the System maintains a subsidiary ledger for accounts receivable, this ledger did not include all open invoices. The subsidiary ledger is not subject to periodic review to follow-up on collection efforts. Management had not performed an assessment of uncollectable accounts as of the end of the fiscal year.

Management Response 2015-3: There were no open invoices for the tower space lease payments on the subsidiary ledger for accounts receivable as the payments were being paid based on the lease agreements and customers were not being invoiced. Management has now implemented invoicing lessees for tower space lease payments. Management conducts monthly review of the subsidiary ledger to reconcile it with the general ledger and to follow-up on collection efforts.

Finding 2015-4: In our tests of cash and cash equivalents, we noted the following weaknesses in internal controls of bank reconciliation procedures: (i) the outstanding check list includes stale dated checks which will have to be reissued when payee makes a claim and should be reversed from the outstanding check list, and (ii) personnel involved in reconciling accounts may benefit from training in reconciliation procedures.

Management Response 2015-4: Management concurs with this finding and will have staff remove stale dated checks not cashed by the cut-off-date from the outstanding list. This is a work in progress.

Virgin Islands Public Television System

Schedule of Findings and Responses

As of and for the Fiscal Years Ended September 30, 2015 and 2014

Internal Control Over Financial Reporting – Significant Deficiencies (continued)

Finding 2015-5: In our tests for compliance with grant requirements, we noted the following weaknesses: (i) grant information not centralized, if an employee leaves the organization the documentation is not available, and (ii) not all forms provided for compliance with financial reporting requirements for PBS Kids Explore the Outdoors grant.

Management Response 2015-5: Management concurs with this finding. Management will continue its efforts to get grant information fully centralized.

Finding 2015-6: In our tests of payroll and payroll related expenses, we noted the following: (i) accrual adjustment for compensated absences should only include annual leave – for those employees paid by the Department of Finance, there should be a reconciliation between both sets of records, and (ii) there should be consistency in the presentation of pension contributions on the W-2s irrespective of funding source.

Management Response 2015-6: Management concurs with this finding. The pension contributions on the W-2s for the CPB employees have been corrected through the accounting software and new W-2s were reprinted and reissued to those employees affected.