

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
(A Component Unit of the Government of the  
United States Virgin Islands)

***INDEPENDENT AUDITORS' REPORT  
AND  
AUDITED FINANCIAL STATEMENTS***

September 30, 2016

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
**(A Component Unit of the Government of the United States Virgin Islands)**  
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**SEPTEMBER 30, 2016 AND 2015**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Virgin Islands Public Broadcasting System:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Virgin Islands Public Broadcasting System (the "System"), a component unit of the Government of the United States Virgin Islands, which comprise the statement of net position as of and for the year ended September 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year ended 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion 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.

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 opinion.



To the Board of Directors of  
Virgin Islands Public Broadcasting System  
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## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the System, as of September 30, 2016, and the changes in financial position and cash flows for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of a Matter**

As disclosed in Note 9 to the financial statements, the System restated its beginning net position from \$4,538,612 as of September 30, 2015 to \$5,657,771, which represents a net increase of \$1,119,159. The restatement establishes a \$1,461,297 pension liability (decrease in net assets) as result of the implementation of GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*. This adjustment represents the estimated liability as of September 30, 2015, reflected in the opening net position as of September 30, 2016. In addition, the restatement increased the System's net position by \$2,587,332 as result of the reconciliation made between the capital assets reported in the 2015 financial statements to the underlying detail records. The adjustment represents an increase in the capital assets as of September 30, 2015, reflected in the beginning capital assets balances as of September 30, 2016. Our opinion is not modified with respect to this matter.

## **Prior Period Financial Statements**

The financial statements of the Virgin Islands Public Broadcasting System as of September 30, 2015, were audited by other auditors whose report dated April 2, 2016, expressed a qualified opinion on those statements, before restatement, because the System did not maintain sufficient documentation to reconcile capital assets reported in the financial statements, to the underlying detail records and because of uncertainties about the application of the Governmental Accounting Standard Board Statement 68, *Accounting and Financial Reporting for Pensions* (GASBS 68).

## **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 4 through 9 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





To the Board of Directors of  
Virgin Islands Public Broadcasting System  
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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 an opinion on the financial statements that collectively comprise the System's basic financial statements. The statement of revenues and expenses per division on page 32 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The statement of revenues and expenses per division is the responsibility of management of the System and is 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 statement of revenues and expenses per division is fairly stated in all material respects, in relation to the basic financial statements as a whole.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2017, 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.

BDO USVI, LLC

St. Thomas, U.S. Virgin Islands  
March 31, 2017

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
**(A Component Unit of the Government of the United States Virgin Islands)**  
**MANAGEMENT'S DISCUSSION ANALYSIS (UNAUDITED)**  
**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

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The purpose of the following management's discussion and analysis of the financial performance and activity of the Virgin Islands Public Broadcasting System (the "System") is to help the readers understand the basic financial statements of the System for the years ended September 30, 2016 and 2015. 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.

**Financial Highlights**

The assets and deferred outflows of the System exceeded liabilities and deferred inflows by \$5.8 million. This is mainly related to the prior period adjustment made for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and to the adjustment to the net position due to the reconciliation made between capital assets reported in the 2015 financial statements to the underlying detail records. The net position increased by \$147 thousand.

**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 Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. In addition to the three financial statements, the System has presented the Statement of Activities per Division as supplementary information. The financial statements, and supplementary information, are prepared in accordance with accounting principles generally accepted in United States of America.

The *Statement of Net Position* reports all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position as of September 30, 2016. 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 *Statement 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").

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

**Summary of Financial Results**

Statements of Net Position--Table 1 summarizes the System's Statements of Net Position as of September 30, 2016 and 2015.

*Table 1: Summary of Statements of Net Position*

	September 2016	September 2015
Unrestricted current assets	\$ 2,600,439	\$ 2,293,248
Restricted current assets	251,458	116,112
Capital assets	5,257,778	5,458,036
Total assets	<u>\$ 8,109,675</u>	<u>\$ 7,867,396</u>
Deferred outflow of resources	<u>\$ 671,407</u>	<u>\$ 90,970</u>
Current liabilities	271,353	466,797
Noncurrent liabilities	2,603,909	1,833,798
Total liabilities	<u>\$ 2,875,262</u>	<u>\$ 2,300,595</u>
Deferred inflow of resources	<u>\$ 95,306</u>	<u>\$ -</u>
Net position:		
Net investment in capital assets	5,257,778	5,458,036
Restricted	251,458	116,112
Unrestricted	301,278	83,623
Total net position	<u>\$ 5,810,514</u>	<u>\$ 5,657,771</u>

For fiscal year 2016, the System's assets amounted to \$8.1 million, of which \$1.5 million represented unrestricted cash and cash equivalents, \$251 thousand represented cash and cash equivalents restricted in purpose, \$30 thousand represented trade and other receivables, \$347 thousand was due from the Government of the Virgin Islands, \$674 thousand represented prepaid expenses and \$5.3 million represented capital assets net of accumulated depreciation. Total current assets increased in fiscal year 2016 by \$443 thousand mainly due to an increase in restricted cash of \$135 thousand as a result of paying a larger portion of the PBS dues from unrestricted cash, and unrestricted cash of \$403 thousand as a result of allotment from the Government of the Virgin Islands of \$181 thousand offset by a decrease in fiscal year 2015 in unrestricted cash of \$120 thousand used to purchase equipment for WTJX-FM. Total liabilities amounted to \$2.9 million and increased by \$575 thousand mainly due to a decrease in accounts payable of \$195 thousand together with an increase of \$771 thousand in net pension liability.

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**MANAGEMENT'S DISCUSSION ANALYSIS (UNAUDITED)**  
**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

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For fiscal year 2015, the System's assets amounted to \$7.9 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 \$5.5 million represented capital assets net of accumulated depreciation. Total current assets increased in fiscal year 2015 by \$587 thousand mainly due to increases in unrestricted cash of \$241 thousand as a result of an allotment from the Government of the U.S. Virgin Islands (GVI) received on 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 \$2.3 million and increased by \$1.9 million mainly due to \$1.6 million recorded as net pension liability as part of the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

***Statements of Revenues, Expenses and Changes in Net Position--Table 2 summarizes the activities of the System as of September 30, 2016 and 2015.***

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

	<u>September 2016</u>	<u>September 2015</u>
Operating revenues	\$ 1,672,901	\$ 1,975,329
Operating expenses	<u>(5,470,840)</u>	<u>(5,229,865)</u>
Loss from operations	(3,797,939)	(3,254,536)
Non-operating revenues	<u>682</u>	<u>2,264</u>
Loss before contributions from the GVI	(3,797,257)	(3,252,272)
Contributions from the GVI	3,950,000	3,769,633
Change in net position	<u>\$ 152,743</u>	<u>\$ 517,361</u>
Net position - beginning of year (as restated for 2016)	\$ 5,657,771	\$ 4,021,251
Prior period adjustments	<u>-</u>	<u>1,119,159</u>
Net position - end of year	<u>\$ 5,810,514</u>	<u>\$ 5,657,771</u>

For fiscal year 2016, operating revenues of \$1.6 million reflect contributions from the Corporation for Public Broadcasting System and others of \$1.4 million, tower space rental income of \$110 thousand, underwriting revenue of \$108 thousand, fundraising revenue of \$44 thousand, advertising revenue of \$8 thousand, membership subscriptions and other donations of \$22 thousand, and other revenue of \$22 thousand. Operating revenues increased by \$94 thousand from the previous year mainly due to an increase in underwriting revenue of \$62 thousand and an increase in fundraising revenue of \$15 thousand.



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**MANAGEMENT'S DISCUSSION ANALYSIS (UNAUDITED)**  
**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

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Operating expenses of \$5.5 million reflect general administration expenses of \$4.1 million, programming expenses of \$936 thousand, depreciation expense of \$481 thousand, and bad debt expense of \$5 thousand. Operating expenses increased by \$247 thousand, mainly due to an increase in general administration expenses of \$273, an increase in programming expenses of \$8 thousand, and an increase in bad debt expense of \$5 thousand, together with a decrease of \$40 thousand in depreciation expense.

For fiscal year 2015, operating revenues of \$1.9 million reflect contributions from the Corporation for Public Broadcasting System and others of \$1.7 million, tower space rental income of \$115 thousand, underwriting revenue of \$45 thousand, fundraising revenue of \$29 thousand, advertising revenue of \$2 thousand, membership subscriptions and other donations of \$15 thousand, and other revenue of \$17 thousand. Operating expenses of \$5.2 million reflect general administration expenses of \$3.8 million, programming expenses of \$928 thousand, and depreciation expense of \$520 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 2016</u>	<u>September 2015</u>
Contributions from Government of the Virgin Islands	\$ 3,950,000	\$ 3,769,633
Grant revenues - Corporation for Public Broadcasting	1,089,499	1,064,289
Grant revenues - USDA Rural Utilities Service	225,000	525,000
Grant revenues - Public Finance Authority	40,950	95,550
Grant revenues - Other	<u>3,500</u>	<u>65,489</u>
Total grant revenues	5,308,949	5,519,961
Operating revenues	<u>313,952</u>	<u>227,265</u>
Total revenues	<u>\$ 5,622,901</u>	<u>\$ 5,747,226</u>
Grants as a percentage of operating revenue	<u>94.4 %</u>	<u>96.0 %</u>

### **Capital Assets**

The System's capital assets include land, buildings, building improvements and equipment. Capital asset additions during the fiscal years ending September 30, 2016 and 2015 amounted \$273 thousand and \$762 thousand.

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**MANAGEMENT'S DISCUSSION ANALYSIS (UNAUDITED)**  
**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

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Summary of Capital Assets--Table 4 summarizes the System's capital assets as of September 30, 2016 and 2015:

*Table 4: Summary of Capital Assets*

	September 2016	September 2015
Land	\$ 1,284,996	\$ 1,284,996
Production and broadcasting equipment	8,106,508	7,873,508
Buildings and improvements	3,592,242	3,592,242
Other	<u>2,514,672</u>	<u>2,473,721</u>
Total capital assets	15,498,418	15,224,467
Accumulated depreciation	<u>10,240,640</u>	<u>9,766,431</u>
Net capital assets	<u>\$ 5,257,778</u>	<u>\$ 5,458,036</u>

Note 4 to the financial statements provides detailed information regarding the capital assets of the System as of September 30, 2016 and 2015.

**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, 2016:

	Budget	Actual	Variance
Total revenues	5,189,499	\$ 5,039,499	\$ (150,000)
Total operating expenses	(5,189,499)	(4,711,121)	478,378
Non-budgeted revenues	-	583,402	583,402
Non-budgeted expenditures	-	(759,719)	(759,719)
Operating income	<u>\$ -</u>	<u>\$ 152,061</u>	<u>\$ 152,061</u>

The decrease in GVI and CPB support is mainly due to a decrease in the GVI's funding of \$150 thousand. Non-budgeted revenues consists of additional grants received amounting to \$269 thousand, underwriting revenue of \$108 thousand, tower space rental revenue of \$110 thousand, and other revenue of \$55 thousand. The decrease in operating expenses of \$478 thousand is mainly due to decreases in salaries and related expenses of \$358 thousand, electricity expenses of \$101 thousand, and supplies expense of \$19 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.

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
**(A Component Unit of the Government of the United States Virgin Islands)**  
**MANAGEMENT'S DISCUSSION ANALYSIS (UNAUDITED)**  
**YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

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**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 BROADCASTING SYSTEM**  
**(A Component Unit of the Government of the United States Virgin Islands)**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2016**

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	<u>2016</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 1,549,160
Accounts receivable	30,020
Due from the Government of the U.S. Virgin Islands	346,805
Prepaid expenses	674,454
Restricted cash	<u>251,458</u>
Total current assets	2,851,897
<b>NONCURRENT ASSETS -</b>	
Capital assets, net of accumulated depreciation	<u>5,257,778</u>
Total assets	<u>\$ 8,109,675</u>
<b>DEFERRED OUTFLOW OF RESOURCES</b>	
Deferred amounts related to pension	<u>\$ 671,407</u>
<b>LIABILITIES</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable	\$ 138,226
Accrued liabilities	101,655
Unearned revenue	18,020
Compensated absences - current portion	<u>13,452</u>
Total current liabilities	271,353
<b>NONCURRENT LIABILITIES:</b>	
Compensated absences	281,001
Net pension liability	<u>2,322,908</u>
Total liabilities	<u>\$ 2,875,262</u>
<b>DEFERRED INFLOW OF RESOURCES</b>	
Deferred amounts related to pension	<u>\$ 95,306</u>
<b>NET POSITION</b>	
Net investment in capital assets	\$ 5,257,778
Restricted	251,458
Unrestricted	<u>301,278</u>
Total net position	<u>\$ 5,810,514</u>

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

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
**(A Component Unit of the Government of the United States Virgin Islands)**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>
OPERATING REVENUES:	
Contributions from Corporation for Public Broadcasting and others	\$ 1,358,949
Tower space rental	110,030
Underwriting	107,995
Fundraising	44,009
Advertising	7,550
Membership subscriptions and other donations	21,883
Other operating revenue	<u>22,485</u>
Total operating revenues	<u>1,672,901</u>
OPERATING EXPENSES:	
Program services	3,370,654
Management and general	2,077,770
Fundraising	<u>22,416</u>
Total operating expenses	<u>5,470,840</u>
LOSS FROM OPERATIONS	<u>(3,797,939)</u>
NON-OPERATING REVENUES-	
Interest income	<u>682</u>
LOSS BEFORE CONTRIBUTIONS FROM GOVERNMENT	<u>(3,797,257)</u>
CONTRIBUTIONS FROM GOVERNMENT OF THE U.S. VIRGIN ISLANDS	<u>3,950,000</u>
INCREASE IN NET POSITION	152,743
NET POSITION, at beginning of year, as restated	4,538,612
PRIOR PERIOD ADJUSTMENT	<u>1,119,159</u>
NET POSITION, at end of year	<u>\$ 5,810,514</u>

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

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
**(A Component Unit of the Government of the United States Virgin Islands)**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>2016</u>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:	
Receipts from grants, customers and others	\$ 3,353,886
Payments to suppliers and employees	<u>(2,542,423)</u>
Net cash provided by operating activities	<u>811,463</u>
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES -	
Interest received on cash and cash equivalents	<u>682</u>
CASH FLOWS USED IN CAPITAL AND RELATED FINANCING ACTIVITIES -	
Purchase of capital assets	<u>(273,951)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	538,194
CASH AND CASH EQUIVALENTS, at beginning of year	<u>1,262,424</u>
CASH AND CASH EQUIVALENTS, at end of year	<u>\$ 1,800,618</u>
CASH AND CASH EQUIVALENTS INCLUDE:	
Unrestricted cash and cash equivalents	\$ 1,549,160
Restricted cash and cash equivalents	<u>251,458</u>
Total cash and cash equivalents	<u>\$ 1,800,618</u>
RECONCILIATION TO NET CASH USED IN OPERATING ACTIVITIES:	
Increase in net position	\$ 152,743
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	474,209
Deferred outflows of resources	(580,437)
Deferred inflows of resources	95,306
Change in assets and liabilities:	
Accounts receivable	303,959
Due from the Government of the U.S. Virgin Islands	(259,948)
Prepaid expenses	51,646
Accounts payable	(225,713)
Accrued liabilities	7,985
Unearned revenues	8,832
Accrued compensated absences	12,240
Net pension liability	<u>770,641</u>
Total adjustments	<u>658,720</u>
Net cash provided by operating activities	<u>\$ 811,463</u>

**Non-cash transactions disclosures:**

Salaries expense paid by the Government of the Virgin Islands in the form of grant for September 30, 2016 amounted to \$2,309,166.

Donated services amounted to \$3,860 as of September 30, 2016.

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



**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
**(A Component Unit of the Government of the United States Virgin Islands)**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

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**1. 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. On July 30, 2015 but effective November 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 System).

The System was formed as a public corporation, and is an autonomous component unit of the Government of the U.S. Virgin Islands (the GVI) and, therefore, the financial statements of the System are not intended to present fairly the financial position and results of operations of the GVI. Only the accounts of the System are included in the reporting entity.

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 Services (PBS), a media foundation that provides grants and services to public and non-commercial television stations.

**2. 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).

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:

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2016**

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***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.

***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 revenues of the System are grants, including grants from the Government of the U.S. Virgin Islands and grants from the Corporation for Public Broadcasting (CPB), underwriting, fundraising, tower space rental and advertising. Operating expenses mainly include programming services, management and general expenses, and depreciation.

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, 2016, cash and cash equivalents held at banks were fully collateralized.

***Accounts Receivable*** - All trade and grant receivables are reported as assets of the System. These accounts receivable mainly consist of underwriting, grants and rent.

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**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. These prepaid expenses mainly consist of unamortized PBS dues, memberships and insurance.

**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 acquisition 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.

Depreciable capital assets are depreciated using the straight-line method by groups or classes over the following expected service lives:

	<u>Years</u>
Production and broadcasting equipment	5-7
Buildings and improvements	5-40
Other	5-15

When capital assets are retired, the cost and related accumulated depreciation 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. As a result of this calculation, no impairment was deemed required to be recognized for the years ended September 30, 2016.

**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, 2016, the System reported accrued compensated absences amounting to \$294,453.

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***Pension Plan*** - The Employees' Retirement System of the government of the GERS is the administrator of a cost-sharing multiple-employer, defined benefit pension plan (the 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 and outside agencies. 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.

***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 GVI as they become due.

***Deferred Outflows of Resources*** - In addition to assets, the statement of net position reports a separate section of deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense) until that time. The deferred amounts related to pension consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions and other differences between expected and actual experience.

***Deferred Inflows of Resources*** - In addition to liabilities and net position, the statement of net position reports a separate section of deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The deferred amounts related to pension consists of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions and other differences between expected and actual experience.

***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.

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***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.

**3. 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, 2016, cash and cash equivalents consisted of the following deposits in banks and certificate of deposit:

	<u>September 30, 2016</u>
Restricted -	
Corporation for Public Broadcasting	<u>\$ 251,458</u>
Unrestricted:	
Government of the U.S. Virgin Islands	760,610
Special productions	187,052
Emergency maintenance	276,765
Petty cash	900
Certificate of deposit	<u>323,833</u>
Unrestricted cash and cash equivalents	<u>1,549,160</u>
Total cash and cash equivalents	<u>\$ 1,800,618</u>

***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.

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**4. ACCOUNTS AND OTHER RECEIVABLES**

Accounts and other receivables at September 30, 2016, consisted of the following:

	<u>September 30, 2016</u>
Underwriting	\$ 14,669
Fundraising	1,700
Advertisement	2,600
Employees	4,672
Other	<u>6,379</u>
	<u>\$ 30,020</u>

As of September 30, 2016, the System had an outstanding receivable due from the GVI, a related party, amounting to \$346,805, to cover operating expenditures.

**5. CAPITAL ASSETS**

Capital assets at September 30, 2016, are comprised of the following:

	<u>Balance at September 30, 2015, as restated</u>	<u>Additions</u>	<u>Balance at September 30, 2016</u>
Non-depreciable assets:			
Land	\$ 1,284,996	\$ -	\$ 1,284,996
Depreciable assets:			
Production and broadcasting equipment	7,873,508	233,000	8,106,508
Buildings and improvements	3,592,242	-	3,592,242
Other	<u>2,473,721</u>	<u>40,951</u>	<u>2,514,672</u>
Total depreciable assets	13,939,471	273,951	14,213,422
Less: accumulated depreciation	<u>9,766,431</u>	<u>474,209</u>	<u>10,240,640</u>
Total depreciable assets, net	<u>4,173,040</u>	<u>(200,258)</u>	<u>3,972,782</u>
Total capital assets, net	<u>\$ 5,458,036</u>	<u>\$ (200,258)</u>	<u>\$ 5,257,778</u>

Depreciation expense for the year ending September 30, 2016 amounted to \$474,209.



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As disclosed in Note 9 to the financial statements, during the year ended September 30, 2016, the System completed the reconciliation of its capital assets subsidiaries. Such reconciliation resulted in a net increase of \$3,382,771 to the capital assets, and net increase of \$795,439 to the accumulated depreciation. Therefore, the capital assets balance disclosed in the 2015 financial statements was restated.

**6. PROGRAMMING DUES**

The System is a member station of the Public Broadcasting Services of the U.S. ("PBS"). PBS offers programming designed to expand the minds of children, documentaries, non-commercial news programs, and programs designed to expose listeners to music, theatre, dance and art. Dues for the member year of July 1, 2016 through June 30, 2017 amounted to \$763,623, paid as of September 30, 2016. Unamortized portion amounting to \$572,717 in 2016 is included as part of prepaid expenses in the accompanying statement of net position. Programming expense for the fiscal year ending September 30, 2016 amounted to \$935,933.

**7. GRANT REVENUE**

The System receives two main sources of grant revenue: (i) appropriations from the Government of the U.S. 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. During the fiscal year ended September 30, 2015, the System received a USDA Rural Digital Grant award in the amount of \$750,000 of which \$225,000 were utilized during the fiscal year ended September 30, 2016. During the fiscal year ended September 30, 2015, the System was also appropriated a capital grant of \$136,500 from the Public Finance Authority for the purchase of equipment of which \$40,950 were received during the fiscal year ended September 30, 2016.

For the fiscal year ending September 30, 2016, the System received the following grant revenue from these organizations:

	<b>September 30, 2016</b>
Government of the Virgin Islands	\$ 3,950,000
Corporation for Public Broadcasting	1,089,499
USDA Rural Utilities Service	225,000
Public Finance Authority - Capital Grant	40,950
Other	3,500
	<b><u>\$ 5,308,949</u></b>

During the years ended September 30, 2016, the GVI supported \$2,309,166 in salary and related costs through its appropriations to the System.

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**8. TOWER SPACE RENTAL**

The System leases certain tower facilities to tenants under the terms requiring the payment of minimum annual rentals. Future income under the annual minimum rentals under noncancelable operating leases in effect at September 30, 2016, are as follows:

<u>Year Ending September 30,</u>	<u>Amount</u>
2017	\$ 84,445
2018	49,538
2019	33,275
2020	30,434
	<u>\$ 197,692</u>

**9. RESTATEMENT TO BEGINNING NET POSITION**

Beginning net position was restated as follows:

	<u>As Previously Reported</u>	<u>Net Adjustment</u>	<u>As Restated</u>
Net position	<u>\$ 4,538,612</u>	<u>\$ 1,119,159</u>	<u>\$ 5,657,771</u>

Adjustment to the net position for \$(1,461,297) is due to the implementation of GASB Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions*. The primary objective of this Statement is to improve accounting and financial reporting for pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenditures. The Statement requires the pension liability to be measured as the portion of the present value of projected benefit payments to be provided through the pension plan. The pension liability measurement date under GASB 68 is two years prior to the financial statements (the measurement date). The adjustment represents the estimated liability as of September 30, 2015, reflected in the opening net position as of September 30, 2016.

In addition, adjustment to the net position for \$2,587,332 is due to the reconciliation made between the capital assets reported in the 2015 financial statements to the underlying detail records. The adjustment represents an increase in the capital asset as of September 30, 2015, reflected in the beginning capital assets balances as of September 30, 2016. The following table presents the System's capital assets balances as previously stated, and as restated:

	<u>As Previously Reported</u>	<u>Net Adjustment</u>	<u>As Restated</u>
Capital assets	<u>\$ 2,877,580</u>	<u>\$ 2,580,456</u>	<u>\$ 5,458,036</u>

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**10. 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, 2016, 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 \$3,860. These agreements have 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.

**11. NET PENSION LIABILITY**

During the fiscal year ended September 30, 2016, the System implemented Governmental Accounting Standard Board Statement 68, "*Accounting and Financial Reporting for Pensions*" (GASBS 68), as amended by Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*". 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, 2015.

***Plan Description and Benefits***

The Employees' Retirement System of the government of the GERS is the administrator of a cost-sharing multiple-employer, defined benefit pension plan (the 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 and outside agencies. 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.

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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.

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. 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.

***Funding and Contribution Policy***

Contributions to GERS are established by the Board of Trustees of GERS. Contribution rates to the retirement plan for regular employees vary based on classification as Tier I or Tier II. The GVI's employer contribution for Tier I and Tier II employees was 20.5% of the member's annual salary. Contribution rates after January 1, 2016 are as follows:

	<u><b>Tier I Employees</b></u>	<u><b>Tier II Employees</b></u>
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%
Employer Contributions	11.0%	11.5%
As of January 1, 2018		
Employer Contributions	20.5%	20.5%
Employer Contributions	12.0%	12.5%

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Both the Plan and the System have a September fiscal year end. GASB Statement No. 68 requires that the reported results must pertain to liability and asset information within certain defined time frames. For this report, the following time frames were used:

Valuation Date:	October 1, 2015
Measurement Date:	September 30, 2015
Measurement Period:	October 1, 2014 to September 30, 2015

The pension liability reported in the System's financial statements is with regards to the payroll funded by sources other than government appropriations since the pension liability for all the employees paid by the GVI is accounted for at the GVI's financial statements. The System's proportionate share of employer contributions recognized by GERS from the payroll funded by sources other than government appropriations was \$39,988 or 0.0571% as of September 30, 2016.

***Additional Information Regarding the Pension Plan***

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, Saint Thomas, U.S. Virgin Islands 00802.

Following is a summary of the information provided by GERS regarding the implementation of GASBS 68 for the System:

***Allocation Percentage Methodology and Changes in Assumptions*** - GASB 68, requires participating employers in GERS to recognize their proportionate share of collective net pension liability, collective deferred outflows of resources, deferred inflows of resources, and collective pension expense excluding that attributable to employer-paid contributions. The assumptions used to calculate the employer allocation percentages was changed from the actual contributions during measurement period October 1, 2014 through September 30, 2015, to the average of each employer's contributions to the Plan over a three-year period. The change in assumption is applied prospectively. Employer contributions to the plan are recognized when due pursuant to legal requirements.

***Net Pension Liability*** - The components of the System's net pension liability, as estimated by GERS, was as follows for the year ended September 30, 2016:

<u>Pension Liability</u>	<u>GERS Net Pension Liability</u>	<u>System's Allocable Percentage</u>	<u>System's Estimated Pension Liability</u>
September 30, 2016	<u>\$ 4,071,660,837</u>	<u>0.0571 %</u>	<u>\$ 2,322,908</u>

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
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The collective total pension liability for September 30, 2016 was determined by an actuarial valuation as of October 1, 2015. The System's proportion of the net pension liability was determined based on the change in assumptions to a three-year average of employer contributions to the pension plan, relative to the contributions of all participating reporting units, as actuarially determined. As of September 30, 2016, the System's proportion increased to 0.0068% from its proportion as of September 30, 2015.

***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.

For the year ended September 30, 2016, the System recognized \$285,510 of pension expense, inclusive of amortization of deferred outflows of pension related items. 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:

	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	\$ 58,977	\$ -
Net difference between projected and actual investment earnings on pension plan investments	43,368	-
Changes in assumptions	430,683	-
Changes in proportion and differences between contributions and proportionate share of contributions	161,122	(95,306)
Amortization of deferred outflows of resources for the year	<u>(22,743)</u>	<u>-</u>
Total deferred outflows and inflows of resources	<u>\$ 671,407</u>	<u>\$ (95,306)</u>

The cumulative amounts of collective net deferred outflows of resources and deferred inflows of resources reported as of September 30, 2016, will be recognized in pension expense as follows:

Future Amortization of Deferred Net Outflows/Inflows		
Year Ending September 30:	GERS Deferred Outflows/Inflows	System Deferred Outflows/Inflows
2017	\$ 214,200,884	\$ 132,078
2018	214,200,884	132,078
2019	214,200,884	132,078
2020	153,338,416	94,550
2021	<u>138,364,700</u>	<u>85,317</u>
Total net deferred outflows/inflows of resources	<u>\$ 934,305,768</u>	<u>\$ 576,101</u>



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

Inflation:	2.50 %
Salary increases:	3.25 % including inflation
Investment rate of return:	3.84 % net of pension plan investment expense, including inflation.
Mortality rates:	For healthy lives were based on 110% of the RP-2014 Blue Collar Healthy Annuitant and Employee Mortality Tables with generational projection from 2015 using Scale MP-2015. For disabled lives were based on 125% of the RP-2014 Disabled Retiree Mortality Table with generational projection from 2015 using Scale MP-2015.
Funding method:	Entry Age Normal Cost Method determined as a level percent of salary funding method.

**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, 2015 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	28 %	6.82 %
International equity	10 %	8.44 %
Fixed income	26 %	1.72 %
Cash	4 %	1.12 %
Alternatives	32 %	6.50 %
Total asset class	100 %	

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**Discount Rate** - The discount rate used to measure total pension liability was 3.84% 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 future increases in the employee contribution rates legislated. 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 7.0%, 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 3.71%.

The following table presents the System's net pension liability under the assumptions of an increase or decrease of 1.00% in the Plan's discount rate.

<u>Allocable Share for the System</u>	<u>1% Decrease (2.84%)</u>	<u>Current Discount Rate (3.84%)</u>	<u>1% Increase (4.84%)</u>
Net pension liability	<u>\$ 2,717,346</u>	<u>\$ 2,322,908</u>	<u>\$ 2,001,297</u>

**12. SUBSEQUENT EVENTS**

For purposes of these financial statements, subsequent events have been evaluated through March 31, 2017, which is the date that financial statements were available to be issued. There are no material subsequent events that require further disclosures in the System's financial statements.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
**SCHEDULE OF THE SHARE OF THE NET PENSION LIABILITY**  
**SEPTEMBER 30, 2016**

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	<u>2016</u>	<u>2015</u>
System's proportion of the net pension liability	0.0571 %	0.0503 %
System's proportionate share of the net pension liability	\$ 2,322,908	\$ 1,552,267
System's covered-employee payroll	\$ 203,050	\$ 186,176
System's proportionate share of the net pension liability as a percentage of its covered-employee payroll	0.09 %	0.12 %
Plan fiduciary net position as percentage of the total pension liability	19.58 %	27.26 %

*\*The amounts presented for each fiscal year are as of the measurement date September 30, 2015 and 2014. This schedule is intended to show a 10 year trend. Information for years before 2015, are not available. Additional years will be reported as they become available.*

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
**SCHEDULE OF CONTRIBUTIONS**  
**SEPTEMBER 30, 2016**

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	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially required contributions	\$ 114,251	\$ 95,427	\$ 96,739
Contributions in relation to the actuarially required contributions	41,276	34,354	36,146
Contribution deficiency/(excess)	72,975	61,073	60,593
Covered-employee payroll	203,050	186,176	213,748
Contributions as a percentage of covered- employee payroll	20.33 %	18.45 %	16.91 %

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

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2016**

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Valuation Date: October 1, 2015  
Measurement Date: September 30, 2015

Actuarially determined contribution rates are calculated as of September 30, 2015, one year prior to the end of the fiscal year in which contributions are reported, and applied to all periods included in the measurement.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost Method determined as a level percent of salary.
Amortization method	Level dollar, closed group.
Remaining amortization period	20 years open amortization
Asset valuation method	Market value
Inflation	2.50%
Salary increases	3.25% including inflation
Investment rate of return	3.84%, net of pension plan investment expense, including inflation
Retirement age	65 for inactive vested participants
Mortality rates	For healthy lives were based on 110% of the RP-2014 Blue Collar Healthy Annuitant and Employee Mortality Tables with generational projection from 2015 using Scale MP-2015.
	For disabled lives were based on 125% of the RP-2014 Disabled Retiree Mortality Table with generational projection from 2015 using Scale MP-2015.



## **SUPPLEMENTARY INFORMATION**

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
**(A Component Unit of the Government of the United States Virgin Islands)**  
**STATEMENT OF REVENUES AND EXPENSES PER DIVISION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>WTJX-TV</u>	<u>WTJX-FM</u>	<u>Total</u>
Operating revenues:			
Grants	\$ 1,358,949	\$ -	\$ 1,358,949
Tower space rental	110,030	-	110,030
Underwriting	75,880	32,115	107,995
Fundraising	44,009	-	44,009
Advertising	7,550	-	7,550
Membership subscriptions and other donations	6,586	15,297	21,883
Other operating revenues	<u>22,485</u>	<u>-</u>	<u>22,485</u>
Total operating revenues	<u>1,625,489</u>	<u>47,412</u>	<u>1,672,901</u>
Non-operating revenues-			
Interest income	<u>682</u>	<u>-</u>	<u>682</u>
Contributions from Government of the U.S. Virgin Islands	<u>3,950,000</u>	<u>-</u>	<u>3,950,000</u>
Total revenues	<u>\$ 5,576,171</u>	<u>\$ 47,412</u>	<u>\$ 5,623,583</u>
Operating expenses:			
Program services:			
Salaries	\$ 1,662,587	\$ -	\$ 1,662,587
Program acquisition	841,127	41,420	882,547
Payroll taxes and contributions	509,202	-	509,202
Annual leave accrual	2,585	-	2,585
Professional fees	92,702	-	92,702
Utilities	77,808	-	77,808
Tower space rental	19,845	-	19,845
Community engagement	5,997	-	5,997
Production	109,834	-	109,834
Content and distribution	5,021	-	5,021
Commission	<u>-</u>	<u>2,526</u>	<u>2,526</u>
Total program services	<u>3,326,708</u>	<u>43,946</u>	<u>3,370,654</u>
Management and general:			
Salaries	292,185	-	292,185
Employee benefits	16,775	-	16,775
Depreciation	474,209	-	474,209
Payroll taxes and contributions	251,082	-	251,082
Annual leave accrual	10,339	-	10,339
Utilities	129,337	-	129,337
Professional fees	91,266	-	91,266

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
**(A Component Unit of the Government of the United States Virgin Islands)**  
**STATEMENT OF REVENUES AND EXPENSES PER DIVISION**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2016**

	<u>WTJX-TV</u>	<u>WTJX-FM</u>	<u>Total</u>
Repairs and maintenance	113,854	-	113,854
Communication	84,991	-	84,991
Insurance	81,500	-	81,500
Subscriptions and memberships	23,219	-	23,219
Professional development/training	31,987	-	31,987
Supplies and other	38,438	3,360	41,798
Travel	30,667	-	30,667
Automobile	27,289	-	27,289
Security	20,316	-	20,316
Printing and publications	19,932	-	19,932
Equipment rental and maintenance	4,464	-	4,464
Small equipment	8,561	1,018	9,579
Postage and freight	7,861	-	7,861
Advertising	10,640	1,000	11,640
Governance and advisory board expenses	4,258	-	4,258
Bad debt	5,275	-	5,275
Computer supplies	8,437	-	8,437
Pension expense	<u>285,510</u>	<u>-</u>	<u>285,510</u>
Total management and general	<u>2,072,392</u>	<u>5,378</u>	<u>2,077,770</u>
Fundraising expense	<u>22,416</u>	<u>-</u>	<u>22,416</u>
Total operating expenses	<u>\$ 5,421,516</u>	<u>\$ 49,324</u>	<u>\$ 5,470,840</u>

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM**  
(A Component Unit of the Government of the United States Virgin Islands)

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

Years Ended September 30, 2016



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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 Broadcasting 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 Broadcasting System (the "System,") which comprise the statement of net position as of September 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated March 31, 2017.

**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.

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 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.

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 considered no deficiencies to be material weaknesses.



To the Board of Directors  
Virgin Islands Public Broadcasting System  
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 following deficiencies described in the accompanying Schedule of Findings and Responses to be significant deficiencies: Finding 2016-001 through Finding 2016-006.

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 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 Broadcasting 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 them.

#### **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 System'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.

*BDO USVI, LLC*

St. Thomas, U.S. Virgin Islands  
March 31, 2017

**VIRGIN ISLANDS PUBLIC BROADCASTING SYSTEM  
SCHEDULE OF FINDINGS AND RESPONSES  
AS OF AND FOR THE FISCAL YEAR ENDED  
September 30, 2016**

**Internal Control Over Financial Reporting - Significant Deficiencies**

***Finding 2016-001:*** Upon examination of the work performed to reconcile the capital assets subsidiary to books, we noted that certain items were recorded based on an estimated value rather than at its historical cost. Also, we noted that the depreciation expense was being recorded based on periods of 9 months (module was set to calculate based on natural year) instead of 12 months. 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 accuracy of the annual depreciation computation 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 assets should be identified and adjusted accordingly.

***Management Response 2016-001:*** During the year ended September 30, 2016, the System completed the reconciliation of its capital assets subsidiaries using original invoices, property deeds, property tax information for the System's real properties obtained from the Recorder of Deeds, and vehicle registrations. The System's fixed assets module has been reset to calculate depreciation expense on a fiscal year basis ending September 30<sup>th</sup> of each year. Depreciation of the System's capital assets were calculated retroactively from the inception of the fixed asset module through fiscal year ended September 30, 2016. Insurance coverage will be updated based on the reconciled capital assets subsidiaries and the System will conduct a full inventory of its asset items.

***Finding 2016-002:*** The System has entered into certain lease transactions for tower space. We noted that one tower rental lessee did not have a current contract agreement. We recommend that the System enter into written contract agreements for all tower rental arrangements.

***Management Response 2016-002:*** The System has been negotiating with the referenced lessee to move from the 100-foot tower to a pole. Currently, the lessee is drafting an agreement for the System's review. This lessee is a federal entity. Their protocols require that we sign their lease, not the reverse.

***Finding 2016-003:*** The System is recording transactions on the basis of cash receipts, whereby certain revenues are recognized when received. We recommend that the accrual basis of accounting be considered. Under that basis, revenues are recorded when earned. The accrual basis is required by generally accepted accounting principles since it results in financial statements that reflect the complete effects of the System's financial transactions for a period.

**Management Response 2016-003:** As a PBS station, the Virgin Islands Public Broadcasting System receives revenues in the form of contributions. In most cases, our clients submit their contributions as lump sum payments for an extended period which may be for the entire year or cross fiscal years. Our past practices were to close the accounts at the end of the year and make the necessary adjustments at year end. Going forward, we will defer the revenue and record it monthly which will result in financial statements that reflect the complete effects of the System's financial transactions on a monthly period.

**Finding 2016-004:** Our review of the general journal entries revealed that entries are authorized and approved verbally. We recommend that all journal entries be initialed by the preparer and the individual approving them in order to attribute responsibility to the appropriate individuals.

**Management Response 2016-004:** As it stands presently, the preparer of journal entries is identified on each journal entry through the secure login of each user. Moving forward, the approver will implement the initialing of general journal entries.

**Finding 2016-005:** The System reconciles general ledger accounts with subsidiaries and/or supporting documents on an annual basis, except for cash accounts which are reconciled on a monthly basis. Also, when reconciliations are performed the preparer and reviewer of the reconciliations is not documented. In order to make the financial reports as meaningful as possible, the System should reconcile the general ledger accounts to supporting documentation on a monthly basis. A benefit of monthly reconciliations is that errors do not accumulate but can be identified and attributed to a particular period, which makes it easier to perform future reconciliations. Further, we recommend that all reconciliations be signed or initialed by the preparer so that responsibility can be easily determined.

**Management Response 2016-005:** Presently, the System reconciles its cash accounts, accounts receivables, and accounts payables monthly. In addition to those accounts, the System will reconcile its capital assets accounts and implement the initialing of all reconciliations by both the preparer and the reviewer.

**Finding 2016-006:** The Director of Business Affairs has administrator rights in the accounting system which allows security access to perform all functions. Also, the Senior Accountant is responsible for adding new employees and inactivating terminated employees, as well as changes in to the employee's pay rate in the payroll system. In order to ensure adequate control over the System's information systems, proper segregation of duties is necessary. Therefore, we recommend that information technology personnel be in charge of administrator rights in the accounting system. Further, Human Resources personnel should be responsible for adding and inactivating terminated employees, as well as updating employee's pay rate information.

**Management Response 2016-006:** Presently, the Director of Business Affairs only has rights to assign access to the System's financial software and to issue and reset passwords. All other administrative rights are performed by the System's IT Administrator and the System's SAGE software representative.

Management concurs that Human Resources personnel should be responsible for adding and inactivating terminated employees, as well as updating employees' payrate information. While the HR Director performs these functions in the ERP for employees paid by the central government, this is not done for those paid using our internal system. The HR Director will begin to perform these tasks in SAGE 100 ERP.