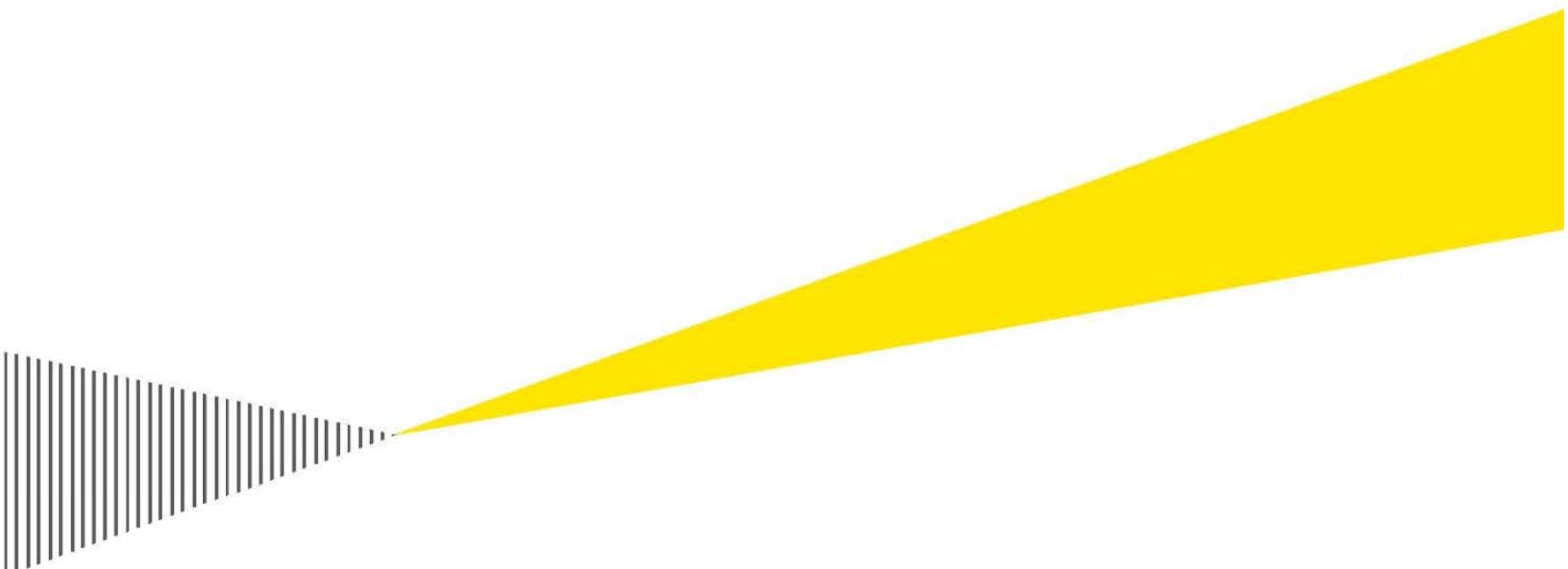


AUDITED FINANCIAL STATEMENTS

Virgin Islands Public Finance Authority  
(a blended component unit of the Government of the  
United States Virgin Islands)  
Year Ended September 30, 2015  
With Report of Independent Auditors



Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Audited Financial Statements

Year Ended September 30, 2015

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## Report of Independent Auditors

The Board of Directors  
The Virgin Islands Public Finance Authority

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

We have audited the accompanying financial statements of The Virgin Islands Public Finance Authority (the Authority), a blended component unit of the Government of the United States (U.S.) Virgin Islands, as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Virgin Islands Public Finance Authority at September 30, 2015, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

### ***Adoption of GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date***

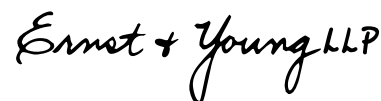
As described in Note 14 to the financial statements, the Virgin Islands Public Finance Authority adjusted its financial statements as a result of the adoption of Government Auditing Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions and GASB 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*, effective October 1, 2014. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 3 through 12 and the Schedule of Authority's Share of the Net Pension Liability and Schedule of the Authority's Contributions on pages 86 and 87, respectively be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2016, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



June 20, 2016

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Management's Discussion and Analysis**

September 30, 2015 and 2014

The Management and Board of Directors of the Virgin Islands Public Finance Authority (the "Authority") are pleased to present the following discussion and analysis of the Authority's financial performance for the fiscal years ended September 30, 2015 and 2014.

Please read this information in conjunction with the Authority's financial statements, which begin on page 13.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The Virgin Islands Public Finance Authority (the "Authority"), a blended component of the Government of the US Virgin Islands, was created by the Virgin Islands Act No. 5365 (the "Act"), "The Government Capital Improvement Act of 1988", for the purposes of aiding the Government of the Virgin Islands (the "Government") in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. The Authority engages in business-type activities, grant management, and investment and debt service fund administration on behalf of the Government.

Under the Authority's investment and debt service fund administration, the Authority issues debt instruments (mainly bonds and notes) and loans the proceeds to the Government of the Virgin Islands under the same terms of the debt source. The proceeds from debt issuances are also managed by the Authority on behalf of the Government of the Virgin Islands. These management activities consist of investing the proceeds in permitted investments, managing the debt service reserves, making payments for capital projects for the benefit of the residents of the Virgin Islands and receiving pledged revenues for the timely payment of principal and interest. Since the Authority holds the bond proceeds, disbursements on behalf of the Government of the Virgin Islands are recorded as reductions in the amounts due to the Government of the Virgin Islands in the statement of net position and are presented in the statement of cash flows as payments on behalf of the Government of the Virgin Islands.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements presented on pages 18 through 85 provide information about the activities of the Authority as a whole.

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Management's Discussion and Analysis (continued)**

September 30, 2015 and 2014

The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. The Statement of Revenues, Expenses and Changes in Net Position provide information showing how the Authority's net position changed during the fiscal year. The Notes to the Financial Statements provide additional information regarding the financial statements.

**FINANCIAL HIGHLIGHTS**

Following is condensed financial information of the Authority as of and for the years ended September 30, 2015 and 2014:

<i>(In thousands)</i>	<b>2015</b>	<b>2014</b>
		<i>(Adjusted)</i>
<b>Condensed information from Statement of Net Position</b>		
Assets:		
Current assets	\$ 492,812	\$ 430,932
Non-current assets excluding capital assets	2,090,194	2,126,542
Capital assets (net of depreciation)	129,580	131,369
Total assets	<u>2,712,586</u>	<u>2,688,843</u>
Deferred outflows of resources	10,510	10,203
Total assets and deferred outflows	<u>\$ 2,723,096</u>	<u>\$ 2,699,046</u>
Liabilities:		
Current liabilities	\$ 191,836	\$ 134,019
Long-term portion of bonds outstanding	1,927,644	1,973,620
Other liabilities	513,826	498,723
Total liabilities	<u>\$ 2,633,306</u>	<u>\$ 2,606,362</u>
Net position:		
Net investment in capital assets	\$ 56,920	\$ 52,979
Restricted	25,171	26,000
Unrestricted	7,699	13,705
Total net position	<u>\$ 89,790</u>	<u>\$ 92,684</u>
<b>Condensed information from Statement of Revenue, Expenses and Changes in Net Position</b>		
Operating revenues	\$ 17,530	\$ 11,771
Operating expenses	(27,378)	(25,721)
Operating loss	(9,848)	(13,950)
Non-operating income and other changes in net position	6,865	31,172
Change in net position	<u>\$ (2,983)</u>	<u>\$ 17,222</u>

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Management's Discussion and Analysis (continued)**

September 30, 2015 and 2014

Non-current assets, excluding capital assets, decreased by \$36.3 million in 2015 mainly due to a decrease in restricted loan receivables from the primary Government of \$34.6 million related to principal payments of outstanding bonds and notes.

Capital assets decreased by \$1.8 million in 2015 mainly due to purchases and construction of assets amounting to \$5.7 million, offset by depreciation and amortization expense of \$6.3 million and disposals of \$481 thousand.

Long-term portion of bonds outstanding decreased by \$45.9 million primarily due to decreases in the long-term portion of the bonds outstanding on Series 2009 A1, A2, B & C and Series 2012 A & B bonds due to principal payments.

The net position of the Authority decreased by \$3 million during fiscal year 2015 mainly due to losses incurred by the blended component units of the Authority amounting to \$4.4 million (see Note 15) offset by an increase in charges for services amounting to \$1.6 million related to bond and loan issuances.

In 2015, operating revenues experienced an increase of \$5.8 million, mainly due to increases in management fees received in connection with bonds and notes issued during the current fiscal year and increases in revenues of viNGN as a result of its first operating year.

**Business Type Activities**

The Authority owns two commercial complexes, The West Indian Company ("WICO") and the King's Alley Management, Inc. ("King's Alley"). WICO is a port facility including a cruise ship pier, shopping mall and rental complex on the island of St. Thomas. King's Alley is a shopping mall and hotel, on the island of St. Croix.

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Management's Discussion and Analysis (continued)**

September 30, 2015 and 2014

Following is condensed financial information for WICO and King's Alley for the years ended 2015 and 2014:

<i>(In thousands)</i>	<b>WICO</b>		<b>King's Alley</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Operating revenues	\$ 9,502	\$ 9,507	\$ 581	\$ 588
Operating expenses	<b>(9,800)</b>	(8,861)	<b>(963)</b>	(917)
Operating income (loss)	<b>(298)</b>	646	<b>(382)</b>	(329)
Nonoperating revenues	<b>1,236</b>	911	<b>1</b>	-
Nonoperating expenses	<b>(2,765)</b>	(2,803)	-	-
Nonoperating income (loss)	<b>(1,529)</b>	(1,892)	<b>1</b>	-
Change in net position	<b>\$ (1,827)</b>	\$ (1,246)	<b>\$ (381)</b>	\$ (329)

WICO's operating revenues consist of agency fees charged to cruise lines and rental income. Operating expenses consist of expenses to operate the port facility. During fiscal year 2015, operating expenses increased by \$939 thousand mainly due to increases in depreciation expense. WICO received a non-operating \$250 thousand settlement with a former tenant during fiscal year 2015.

WICO secured financing for additional development of its port facilities. The Phase II projects include replacement of WICO's 60-ton bollards, with 150-ton bollards, along with the refurbishment of the bulkhead to allow the dock facility to handle larger ships securely, totaling approximately \$3.75 million during fiscal year 2015.

The extension of WICO's dock allowed the company to accommodate larger cruise ships for the 2014/2015 cruise ship season and strengthens the integrity of the dock as a whole. The Phase I projects were completed during January, 2014. The Phase II project, includes replacement of 32 older 60-ton bollards with newer, larger 150-ton bollards, as well as replacement of 750 feet of dock bulkhead. The Long Bay Landing portion of the Phase II project, which includes plans to construct a new dock, with two new unrestricted berths, is being reassessed. The new dock will accommodate the larger ships, with passenger capacity of more than 4,000 guests. Estimated projections determine that construction of the new dock facilities will provide at least 100 additional calls, as major cruise lines have expressed interest in the proposed berthing opportunities.



**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Management’s Discussion and Analysis (continued)**

September 30, 2015 and 2014

King’s Alley operating loss of \$381 thousand in fiscal year 2015, is mainly due to depreciation of \$481 thousand.

**Grant Administration**

The Office of Economic Opportunity (“OEO”) is a business unit of the Authority that was formed on June 12, 2009 to provide oversight of all the funds awarded to the Territory under the American Recovery and Reinvestment Act of 2009 which is also known as “ARRA”, “the Stimulus Program”, and “the Recovery Program”.

Following is condensed financial information for OEO for the years ended 2015 and 2014:

<i>(In thousands)</i>	<b>Office of Economic Opportunity</b>	
	<b>2015</b>	<b>2014</b>
Operating revenues	\$ –	\$ –
Operating expenses	<b>(1,129)</b>	(757)
Operating loss	<b>(1,129)</b>	(757)
Nonoperating revenues – Budgetary allocation	–	–
Nonoperating revenues – interfund transfers	<b>2,240</b>	–
Nonoperating revenues – Interest	<b>5</b>	4
Change in net position	<b>\$ 1,116</b>	\$ (753)

Operating expenses of \$1.1 million in fiscal year 2015, consisted of operating and grant expenditures not covered by grant guidelines or made as part of award matching requirements.

**Broadband Initiative – viNGN**

viNGN, INC d/b/a Virgin Islands Next Generation Network (“viNGN”) was incorporated on October 22, 2010, and is owned by the Government of the US Virgin Islands through the Virgin Islands Public Finance Authority.

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Management's Discussion and Analysis (continued)**

September 30, 2015 and 2014

The main purpose of viNGN is to design, develop, engineer, construct and manage a middle mile wholesale fiber optic network in order to provide reliable high speed internet connections at affordable prices and equal terms to all retail internet service providers and public infrastructure stewards; to establish telework support centers; to establish public computer centers; to provide the internet infrastructure for expanded communication for public safety and health facilities; to provide the internet infrastructure to foster retention of jobs and businesses; to provide training to the public; to coordinate the deployment of fiber strands; and, to reinvest a part of the proceeds from such activities to sustain and support the continuation of the foregoing activities and other authorized purposes of viNGN.

Following is condensed financial information for viNGN for the years ended 2015 and 2014:

<i>(In thousands)</i>	<b>viNGN</b>	
	<b>2015</b>	<b>2014</b>
Operating revenues	\$ 2,565	\$ 38
Operating expenses	<b>(9,810)</b>	(9,264)
Operating loss	<b>(7,245)</b>	(9,226)
Nonoperating revenues	<b>4,041</b>	4,402
Gain (loss) before capital and in-kind contributions	<b>(3,204)</b>	(4,824)
Capital contributions from federal grants	<b>1,011</b>	15,509
In-kind contributions	–	10,475
Change in net position	<b>\$ (2,193)</b>	\$ 21,160

viNGN's operating revenues increased in fiscal year 2015 due to the expansion of the network. The Company completed the installation of two undersea cables that link both the islands of St. Croix and St. Thomas. The Company also continued its operations and entered into several agreements with various internet service providers (ISPs) increasing its revenue.

**Investment Administration**

The Authority manages the assets of all outstanding bond and note series. Assets of defeased bond series are managed by trustees of the defeased bond series.

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Management's Discussion and Analysis (continued)**

September 30, 2015 and 2014

Investments under management for fiscal years 2015 and 2014, were as follows:

<i>(In thousands)</i>	<b>Restricted Cash and Investments</b>	
	<b>2015</b>	<b>2014</b>
Investments under management	\$ 516,711	\$ 522,582
Other restricted cash, cash equivalents and investments	2,467	2,712
	<b>\$ 519,178</b>	<b>\$ 525,294</b>

**DEBT ADMINISTRATION**

At year-end, the Authority had approximately \$2.0 billion in bonds outstanding as follows.

	<b>Bonds Outstanding 9/30/2014</b>	<b>New Issuances</b>	<b>Debt Payments</b>	<b>Refunded</b>	<b>Bonds Outstanding 9/30/2015</b>
Matching Funds Revenue Bonds	\$ 1,283,480	\$ –	\$ (38,750)	\$ –	\$ 1,244,730
Gross Receipts Revenue Bonds	746,570	252,815	(20,340)	(233,290)	745,755
Total	<b>\$ 2,030,050</b>	<b>\$ 252,815</b>	<b>\$ (59,090)</b>	<b>\$ (233,290)</b>	<b>\$ 1,990,485</b>

In December 2014, the Authority issued the Series 2014 D Revenue Bonds, the proceeds of which were loaned to finance certain costs associated with the broadband expansion program (see Note 6).

In November 2014, the Authority issued the Series 2014 C Revenue and Refunding Bonds. The bonds were issued to refund the outstanding Series 2003 A Bonds and finance costs of certain capital projects (see Note 6).

The proceeds of the Series 2014 C Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2016 to 2034 maturities of the Series 2003 A Bonds. On December 1, 2014, the Series 2003 A bonds were defeased through the exercise of call redemptions (see Note 6).

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Management's Discussion and Analysis (continued)**

September 30, 2015 and 2014

In September 2014, the Authority issued the Series 2014 A Revenue Bonds. The proceeds were loaned to the Government of the Virgin Islands to provide financing of various capital projects approved by the Virgin Islands Legislature (see Note 6).

At September 30, 2015, defeased bonds outstanding from prior years amounted to \$74.7 million (1989 and 1999 Series).

Loans outstanding were as follows:

	<i>(In thousands)</i>			
	<b>Loan Outstanding 9/30/2014</b>	<b>New Issuances</b>	<b>Debt Payments</b>	<b>Loan Outstanding 9/30/2015</b>
2015 A Revenue Anticipation Notes	\$ —	\$ 40,000	\$ —	\$ <b>40,000</b>
2014 E Notes	—	40,000	—	<b>40,000</b>
2014 B Notes	14,000	—	(2,000)	<b>12,000</b>
2013 A Notes	4,248	—	(1,733)	<b>2,515</b>
2012 A TIF Notes	13,280	—	(260)	<b>13,020</b>
2011 B Revenue Anticipation Notes	6,937	—	(1,121)	<b>5,816</b>
2009 A 911 Notes	899	—	(899)	—
WICO	28,517	3,750	(390)	<b>31,877</b>
<b>Total</b>	<b>\$ 67,881</b>	<b>\$ 83,750</b>	<b>\$ (6,403)</b>	<b>\$ 145,228</b>

In September 2015, the Authority issued the Series 2015 A Property Tax Revenue Anticipation Note in the aggregate amount of \$40 million. The proceeds of the 2015 A Note were loaned to the Government to finance certain operating expenses and other financial obligations of the Government (see Note 7).

In December 2014, the Authority issued the Subordinate Lien Revenue Anticipation Notes Series 2014 E (Virgin Islands Gross Receipts Taxes Loan Note), in the aggregate amount of \$40 million. The proceeds of the 2014 E Note were loaned to the Government to fund current expenses, capital expenditures, and discharge of any obligations of the Government (see Note 7).

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Management's Discussion and Analysis (continued)

September 30, 2015 and 2014

In November 2014 WICO finalized an interim financing agreement to procure a loan payable to Bank Popular de Puerto Rico. The agreement provided for Banco Popular de Puerto Rico to extend a loan to WICO in the amount of approximately of \$3.8 million. This interim financing provides additional funding to initiate Phase II WICO pier construction projects (see Note 7).

**CURRENTLY KNOWN FACTS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS- ECONOMIC FACTORS**

**Tax Collections**

Bonds and notes issued by the Authority are supported by pledged rum excise tax revenues, gross receipts tax revenues, and real property tax revenues, as more fully described in Notes 6 and 8 of the accompanying financial statements. Rum excise taxes are Federal excise tax collections from rum which are returned to the Government of the Virgin Islands from the Federal Government. Rum production occurs at two private facilities. Gross receipts tax revenues are a tax on gross professional services and sales. Property tax revenues are a tax on assessed property values or incremental values in financing districts.

Debt service payments of principal and interest from these revenue sources for the past three years are as follows:

<i>(In thousands)</i>	<b>Year Ending September 30</b>	
	<b>2015</b>	<b>2014</b>
Excise rum tax	<b>\$ 105,233</b>	<b>\$ 82,084</b>
Gross receipts tax	<b>\$ 64,736</b>	<b>\$ 96,113</b>
Property tax	<b>\$ 1,437</b>	<b>\$ 1,471</b>

The ability of the Government to meet its loan obligations to the Authority is dependent upon the collection of tax revenues.

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Management's Discussion and Analysis (continued)**

September 30, 2015 and 2014

**Investment Performance and Agreements**

The Authority investments include AAAM (S&P) and Aaa-/Aaa-mf (Moody's) rated money market funds, A-1+ (S&P) and P-1 (Moody's) rated government securities, and, A-1 (S&P) and P-1 (Moody's) rated commercial securities. Due to declining interest returns, the Authority entered into three debt service agreements with Morgan Stanley Capital Services, Inc., during fiscal year 2002. The agreements were amended in October 2009, and revised in April 2010, to redefine the bond series guaranteed as a result of the 1998 Bond debt refunding. The terms of the agreements provide a guaranteed return in exchange for the guaranty of Authority debt service reserves. The Authority received \$1.6 million in fees upon entering into the agreements and a guaranteed average rate of return of 5% to 6% on investments subject to the agreements.

On August 29, 2013, Fitch Ratings downgraded the Authority's debt rating from BBB to BBB- as a result of the downward recalculation of pledged Matching Funds Revenues available from Captain Morgan's rum export.

**Contacting the Company**

This financial report is designed to provide users with a general overview of the Company's finances. If you have questions about this report or need additional financial information, contact the Authority:

Virgin Islands Public Finance Authority  
32 &33 Kongens Gade, Government Hill  
St. Thomas, US Virgin Islands 00802  
(340) 714-1635

# Financial Statements

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Net Position

September 30, 2015

**Assets**

Current assets:

Cash and cash equivalents	\$ 23,441,867
Restricted cash and cash equivalents	134,816,394
Restricted investments, at fair value	200,941,926
Receivables, net	2,546,608
Restricted loans receivable - Government of the U.S. Virgin Islands	130,041,141
Prepaid expenses and other assets	1,024,299
Total current assets	<u>492,812,235</u>

Noncurrent assets:

Restricted investments, at fair value	183,420,027
Restricted loans receivable - Government of the U.S. Virgin Islands	1,906,774,341
Capital assets, non-depreciable	10,874,097
Capital assets, depreciable, net	118,705,344
Total noncurrent assets	<u>2,219,773,809</u>
Total assets	<u>2,712,586,044</u>

**Deferred outflows of resources**

Deferred losses on bond refundings, net	10,176,338
Deferred amounts related to pensions	333,980
Total assets and deferred outflows of resources	<u><u>\$ 2,723,096,362</u></u>

*Continued*



Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Net Position (continued)

September 30, 2015

**Liabilities**

Current liabilities:

Accrued expenses and other liabilities	\$	9,725,406
Loan payable related to capital assets		569,564
Notes payable		63,021,141
Bonds payable		67,020,000
Interest payable		51,327,235
Unearned revenue		172,906
Total current liabilities		191,836,252

Noncurrent liabilities:

Loans payable related to capital assets		31,307,906
Notes payable		50,329,341
Net pension liability		3,286,609
Bonds payable, net of net unamortized bond premiums and discounts of \$4,178,488		1,927,643,488
Due to Government of the U.S. Virgin Islands - construction funds		219,740,578
Due to Government of the U.S. Virgin Islands - debt service funds		209,161,877
Total noncurrent liabilities		2,441,469,799
Total liabilities		2,633,306,051

**Net position**

Net investment in capital assets		56,919,568
Restricted for debt service		25,171,265
Unrestricted		7,699,478
Total net position	\$	89,790,311

*See accompanying notes.*

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2015

Operating revenues:	
Charges for services	\$ 17,389,820
Other operating revenues	140,511
Total operating revenues	<u>17,530,331</u>
Operating expenses:	
General and administrative	20,147,949
Depreciation and amortization	7,230,448
Total operating expenses	<u>27,378,397</u>
Operating loss	(9,848,066)
Nonoperating revenues (expenses):	
Proceeds from settlement	250,000
Investment income:	
Cash, cash equivalents and investments	3,001,983
Loans receivable - Government of the U.S. Virgin Islands	105,118,241
Budgetary allocation	3,500,000
Federal grants	4,029,429
Amortization of bond discount	(3,784,415)
Amortization of deferred losses on debt refundings	(1,985,983)
Interest expense	(104,526,044)
Gain on sale of capital assets	500
Other income	979,477
Contribution to the Government of the U.S. Virgin Islands	(700,000)
Total nonoperating income, net	<u>5,883,188</u>
Loss before payments on behalf of the Government of the	
U.S. Virgin Islands, capital contributions and grants	(3,964,878)
Payments on behalf of the Government of the U.S. Virgin Islands	(29,372)
Capital contributions from Federal grants	1,011,253
Change in net position	<u>(2,982,997)</u>
Total net position at beginning of year, <i>as restated</i>	<u>92,773,308</u>
Total net position at end of year	<u><u>\$ 89,790,311</u></u>

*See accompanying notes.*

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Cash Flows

Year Ended September 30, 2015

**Operating activities**

Cash received from customers	\$ 17,712,612
Cash paid to suppliers and employees for services	(22,770,118)
Cash received from settlement	250,000
Net cash used in operating activities	<u>(4,807,506)</u>

**Investing activities**

Purchases of investments	(689,408,870)
Interest received on cash, cash equivalents and investments	1,511,592
Investment maturities and sales	645,196,566
Net cash used in investing activities	<u>(42,700,712)</u>

**Capital and related financing activities**

Proceeds from loan issuance	3,750,000
Acquisition of capital assets	(5,523,712)
Capital contribution - federal grants	2,987,919
Interest payment on long-term debt related to capital assets	(1,929,122)
Principal payments on loans payable related to capital assets	(389,921)
Net cash used in capital and related financing activities	<u>(1,104,836)</u>

**Noncapital financing activities**

Funds received for debt service	289,232,203
Contributions to the Government of the U.S. Virgin Islands	(150,000)
Contributions to Cruzan	(30,557,020)
Contributions to Diageo	(27,148,668)
Bank and other fees	(362,908)
Proceeds from issuance of bonds and notes payable	313,379,390
Budgetary allocation	3,500,000
Interest paid on bonds and notes payable	(103,871,023)
Federal grants	4,029,569
Payment of issuance costs	(6,334,687)
Transfer (to)/from the Government of the U.S. Virgin Islands	(60,113,344)
Principal payments on bonds and notes payable	(65,103,613)
Defeasance of 2009 A, 2009 B, 2004 A and 2003A bonds	(292,125,000)
Payments on behalf of Government of the U.S. Virgin Islands	(16,886,205)
Deposit of funds to escrow	(5,370,829)
Net cash provided by noncapital financing activities	<u>2,117,865</u>
Net decrease in cash, cash equivalents and restricted cash	<u>(46,495,189)</u>

Cash, cash equivalents and restricted cash at beginning of year	<u>204,753,450</u>
Cash, cash equivalents and restricted cash at end of year	<u>\$ 158,258,261</u>

*Continued*

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Cash Flows (continued)

Year Ended September 30, 2015

**Reconciliation of operating loss to net cash used in  
operating activities**

Operating loss	<u>\$ (9,848,066)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:	
Provision for doubtful accounts	(52,613)
Depreciation and amortization	7,230,448
Proceeds from settlement	250,000
Other income	979,477
Changes in operating assets and liabilities that increase (decrease) cash:	
Receivables	(247,493)
Accrued expenses and other liabilities	(3,040,672)
Prepaid expenses and other assets	<u>(78,587)</u>
Total adjustments	<u>5,040,560</u>
Net cash used in operating activities	<u><u>\$ (4,807,506)</u></u>

*See accompanying notes.*

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Notes to the Financial Statements**

September 30, 2015

**1. Reporting Entity and Summary of Significant Accounting Policies**

**Reporting Entity**

The Virgin Islands Public Finance Authority (the “Authority”), a blended component of the Government of the US Virgin Islands, was created by the Virgin Islands Act No. 5365 (the “Act”), *The Government Capital Improvement Act of 1988*, for the purposes of aiding the Government of the Virgin Islands (the “Government”) in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, the Authority is vested with, but not limited to, the following powers: (i) to have perpetual existence as a corporation, (ii) to borrow money and issue bonds, (iii) to lend the proceeds of its bonds or other money to the Government or any agency, authority or instrumentality thereof, and to private entities, (iv) to establish one or more revolving loan funds with the proceeds of bonds issued by the Authority or issued by the Government or any agency, authority or instrumentality thereof and, (v) to invest its funds and to arrange for the investment of the funds of the Government or any agency, authority or instrumentality thereof. Pursuant to Section 8(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. The Authority also provides property management services as discussed further below under Activities of the Authority.

***Blended Component Units***

A component unit is reported as blended when either (1) the component unit’s governing body is substantively the same as the Authority, and (a) there is a financial benefit or burden relationship between the Authority and the component unit, or (b) management of the Authority has operational responsibility for the component unit, or (2) the component unit provides services entirely, or almost entirely, to the Authority or otherwise exclusively, or almost exclusively, benefits the Authority, or (3) the component unit’s outstanding debt is expected to be repaid entirely or almost entirely with resources of the Authority.

The following component units, provide services entirely or almost entirely to the primary government, or have outstanding debt that is expected to be paid entirely or almost entirely with the Authority’s resources:

- The West Indian Company (“WICO”)
- King’s Alley Management, Inc. (“KAMI”)
- Virgin Islands Next Generation Network (“viNGN”)

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

**1. Reporting Entity and Summary of Significant Accounting Policies**

Although these entities are legally separate, are reported as part of the Authority since they operate for the sole purpose of assisting and supporting the Authority in accomplishing its mission of providing management and financial services for the benefit of the primary government. The governance of each blended component unit is controlled by the Authority through the selection of the members of the Boards of Directors of each unit.

**General Obligation Bonds**

Pursuant to Section 8(b)(ii) of the Revised Organic Act, the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness be in excess of ten (10%) of the aggregate assessed valuation of the taxable real property in the United States Virgin Islands. Pursuant to 48 U.S.C. section 1574a (“Public Law 94-932”), the United States Virgin Islands is authorized to issue bonds or other obligations in anticipation of the matching funds to be received from the Federal Government pursuant to 26 U.S.C. section 7652 (b) (3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. section 1574a.

**Summary of Significant Accounting Policies**

The significant accounting policies used by management in the preparation of its financial statements follow:

***Basis of Presentation and Accounting***

The Authority is a governmental enterprise fund. Accordingly, the financial statements have been prepared using the accrual method of accounting.

The Authority prepares its financial statements in conformity with accounting principles generally accepted in the United States of America for a governmental enterprise fund, which are similar to those for private business enterprises. The Authority follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective October 1, 2012. Expenses are recorded when incurred and revenues are recorded when earned.

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Basic Financial Statements***

Standards for external financial reporting for state and local governments require that resources be classified for accounting and reporting purposes into net position categories and to report the changes in net position. Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consisted of the following categories:

- *Net investment in capital assets:* Capital assets, net of accumulated depreciation reduced by the outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net assets. The portion of debt attributed to the unspent debt proceeds or deferred inflows of resources is included in the same net position component as the unspent proceeds.
- *Restricted:* These result when constraints, on the use of net resources, are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provision or enabling legislation.
- *Unrestricted:* Resources that are not subject to externally imposed stipulations.

Liabilities that relate to specific restricted resources which exceed those resources are reported as a reduction of unrestricted amounts. All assets and liabilities of bond reserve accounts are considered restricted resources.

***Statement of Cash Flows***

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Activities of the Authority***

The Authority performs a financial management function for the Government of the Virgin Islands consisting of the following activities:

Operations: Overall investment management and administrative activities of the Authority.

The West Indian Company (“WICO”): Property management activities related to the management of the WICO, a blended component unit, consisting primarily of servicing cruise ships owned by established shipping lines.

King’s Alley Management, Inc. (“KAMI”): Property management activities related to KAMI, a blended component unit, formed on July 22, 2001, consisting primarily of managing the King’s Alley Hotel in Christiansted, St. Croix, and a shopping center in Frederiksted, St. Croix.

Virgin Islands Next Generation Network (“viNGN”): Operating entity in connection with the broadband expansion project formed on March 8, 2010, a blended component unit of the Authority. viNGN was incorporated on October 22, 2010, and its articles of incorporation were duly filed with the Office of the Lieutenant Governor of the United States Virgin Islands on October 12, 2010.

Office of Economic Opportunity (“OEO”): Oversight of the activities attributable to the American Recovery and Reinvestment Act of 2009 (“ARRA”) formed on June 12, 2009. OEO is a business unit of the Authority.

See Note 15 for condensed financial statements of the major component units.

***Cash and Cash Equivalents***

Cash and cash equivalents of the Authority consist of demand accounts, certificates of deposits with maturities of three months or less when purchased, short-term United States Government and its agencies obligations maturing within three months and collateralized by United States Government obligations.



Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Cash and Cash Equivalents (continued)***

By law, bank and trust companies designated as depository of public funds of the Government of the United States Virgin Islands and its instrumentalities are to maintain corporate surety bonds or pledge collateral satisfactory to the Commissioner of Finance of the US Virgin Islands to secure all governmental funds deposited.

***Receivables***

Receivables are recorded at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The adequacy of the allowance for doubtful accounts is evaluated by management based upon past collection experience and customers' financial condition.

***Investments***

Under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for Most External Investments Pools*, the Authority reports investments at fair value in the statement of net position and changes in the fair value in the statement of revenues, expenses and changes in net position. Investments are restricted by various bond resolutions of the Authority and the Act, generally, to direct obligations of the United States Government, the United States Virgin Islands, or any state, territory, possession or Commonwealth of the United States, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The Authority has retained investment managers and investments are held in trust by a commercial bank on behalf of the Authority.

Under GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*, common deposits and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk require certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The disclosures required by this statement are included in Note 3.

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Investments (continued)***

Current investments include shares or interests in money-market funds, short-term United States Government and its agencies obligations, and investments agreements which mature in three months or less and are not designated for payment of current debt. Long-term investments are funds held in debt service reserve accounts not intended to convert to cash in the next fiscal year.

***Deferred Outflows of Resources***

Under GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the Authority reports separate sections in the Statement of Net Position for Deferred Inflows of Resources and Deferred Outflows of Resources. These separate financial statement elements represents a consumption or receipt of resources that applies to a future period and therefore will not be recognized as an inflow or outflow of resources until then. The Authority includes in the Deferred Outflow of Resources reporting category the deferred charges on refunded debt resulting from the difference in the carrying value of the refunded debt and its reacquisition price.

Under GASBS Statement 68, *Accounting and Financial Reporting for Pensions*, differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and changes of assumptions about future economic or demographic factors or other inputs are reported as deferred outflows of resources related to pensions. The Authority reports in the Deferred Outflows of Resources the deferred components which are amortized over the average of the expected remaining service lives of its employees, and pension contributions made after the measurement date of September 30, 2014, and before October 1, 2015.

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Pensions***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Authority reports amounts on the same basis as reported by the Government Employees Retirement System (“GERS”). Information about the fiduciary net position of GERS, recognition of benefit payments, and additions to/deductions from fiduciary net position, see GERS's separately issued audit report available at [www.usvigers.com/Reports/AuditedFinancialReports.aspx](http://www.usvigers.com/Reports/AuditedFinancialReports.aspx). GERS investments are reported at fair value.

***Bonds Payable***

Bonds payable managed by the Authority are as follows:

*Series 2014 D Revenue Bonds:* The proceeds of the bonds were issued to (i) finance certain costs associated with the broadband expansion program, and (ii) establish debt service reserves, and (iii) finance the costs of issuance related to the Series 2014 D Bonds.

*Series 2014 C Revenue and Refunding Bonds:* The proceeds of the bonds were issued to (i) advance refund the outstanding Series 2003 A Bonds, (ii) finance all or a portion of the costs of certain capital projects, and (iii) finance the costs of issuance related to the Series 2014 C Bonds.

*Series 2014 A Revenue Bonds:* The proceeds of the bonds were issued to (i) provide a loan to the Government to fund certain operating expenses and other obligations of the Government, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2014 A Bonds.

*Series 2013 B Revenue and Refunding Bonds:* The proceeds of the bonds were issued to (i) refund a portion of the Authority's 2004 A Bonds, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2013 B Bonds.

*Series 2013 A Revenue and Refunding Bonds:* The proceeds of the bonds were issued to (i) refund a portion of the Authority's 2004 A Bonds, 2009 A1 Bonds, and 2009 B Bonds, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2013 A Bonds.

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Bonds Payable (continued)***

*Series 2013 A Revenue and Refunding Bonds:* The proceeds of the bonds were issued to (i) refund a portion of the Authority's 2004 A Bonds, 2009 A1 Bonds, and 2009 B Bonds, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2013 A Bonds.

*Series 2012 C Revenue Bonds:* The proceeds of the bonds were issued to (i) finance all or a portion of the costs of certain capital projects, (ii) fund capitalized interest on a portion of the 2012 C Bonds, and (iii) finance costs of issuance of the 2012 C Bonds.

*Series 2012 A and B Revenue and Refunding Bonds:* The proceeds of the bonds were issued to (i) refund the Authority's 1999A Bonds, 2011 A Note, and 2010 A Notes, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2012 A and B Bonds.

*Series 2012 A Revenue Bonds:* The proceeds of the bonds were issued to: (i) finance various operating expenses and other obligations of the Government, (ii) establish debt service reserves, and (iii) finance certain costs of issuance of the Series 2012 A Bonds.

*Series 2010 A and B Revenue Bonds:* The proceeds of the bonds were issued to (i) finance working capital requirements of certain operating expenses and other obligations of the Government, (ii) refinance a portion of the B1 and B2 Bond Anticipation Notes, (iii) establish debt service reserves, and (iv) finance costs of issuance of the 2010 A and B Bonds.

*Series 2009 A Revenue Bonds (Cruzan):* The proceeds of the bonds were issued to (i) finance the costs of the development, acquisition, construction and installation of a wastewater treatment facility, (ii) fund certain preliminary costs of the alteration, upgrade, expansion and renovation of the Cruzan distillery on St. Croix., (iii) establish debt service reserves, and (iv) finance costs of issuance of the 2009 A Bonds.

*Series 2009 A1, A2, B and C Revenue and Refunding Bonds:* The proceeds of the bonds were issued to (i) finance various capital projects of the Government, (ii) establish debt service reserves, (iii) finance costs of issuance of the Series 2009 A1, A2, B and C Bonds, and (iv) refund a portion of the Authority's Series 1998 Revenue Bonds.

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Bonds Payable (continued)***

*Series 2009 A Revenue Bonds (Diageo):* The proceeds of the bonds were issued to: (i) make a loan to the Government to provide a grant to Diageo USVI Inc. to finance the costs of the acquisition, design, development, construction and equipping of a rum production and maturation warehouse facility to be located on St. Croix, (ii) pay in full the principal and interest due on the Subordinated Revenue Series 2009 A Bond Anticipation Notes, (iii) pay capitalized interest on the Series 2009 A Bonds, (iv) fund the Series 2009 A Senior Lien Debt Service Reserve Subaccount, and (v) pay the costs of issuing the Series 2009 A Bonds.

*Series 2006 A Revenue Bonds:* The proceeds of the bonds were issued to: (i) refund a portion of the Authority's Revenue Bonds, Series 1999 A, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund the debt service account, (v) pay certain costs of issuing the Series 2006 A Bonds and, (vi) fund a net payment reserve account for a new swap agreement.

*Series 2004 A Revenue Bonds:* The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix (ii) finance the repairs, renovations and construction of solid waste facilities in the Territory (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the newly created Virgin Islands Waste Management Authority, (v) fund the Series 2004 A Senior Lien Debt Service Reserve Subaccount and (vi) pay certain costs of issuing the Series 2004 A Bonds.

*Series 2003 A Revenue Bonds:* The proceeds of the bonds were issued to: (i) repay the Authority's outstanding principal on the Series 2003 Revenue Anticipation Notes, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund the Debt Service Reserve Accounts in an amount necessary to satisfy debt service reserve requirements, and (iv) pay certain costs of issuing the Series 2003 A Bonds.

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

*Payments on Behalf of the Government of the US Virgin Islands*

Payments on behalf of the Government of the Virgin Islands for the fiscal year ended September 30, 2015 include payments for capital projects.

During the fiscal year ended September 30, 2015, the following amounts were disbursed and reported as a reduction of restricted resources held for the Government of the United States Virgin Islands in the statement of net position and as payments on behalf of the Government of the United States Virgin Islands in the statement of cash flows.

<b>Funding Source</b>	<b>Amount</b>
2014 E Notes	\$ 650,000
2014 C Bonds	1,838,822
2012 C Bonds	4,427,016
2009 A1, A2, B and C R&R Bonds	316,596
2009 A Bonds (Diageo) - Community fund	3,025,626
2006 Bonds	165,698
2004 A Bonds	132,739
2003 A Bonds	1,953,043
1992 Bonds	29,372
Administrative funds	847,293
	13,386,205
 Budgetary transfers and other payments on behalf of the Government of the United States Virgin Islands	 <u>3,500,000</u>
Total payments on behalf of the Government of the United States Virgin Islands	 <u><u>\$ 16,886,205</u></u>

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Payments on Behalf of the Government of the US Virgin Islands (continued)***

During the fiscal year ended September 30, 2015, viNGN, as a subrecipient of federal awards to the Office of Economic Opportunity, made reimbursable expenditures of \$5 million (see Note 8) and received federal grant reimbursements of \$7 million.

During the fiscal year ended September 30, 2015, the Authority charged the Government fees amounting to \$4.8 million for its investment and bond management services.

During the fiscal year ended September 30, 2015, the Authority charged \$75,000 to the Tobacco Settlement Financing Corporation for annual investment and bond management services.

***Taxes***

The Authority is a tax-exempt entity created by statute. The Authority shall not be required to pay any taxes or assessments on any of the property acquired or to be acquired by it, or on any of its operations or activities, or on any income derived from any of its operations or activities. Prior to June 2003, WICO was required, under a specific bill, to contribute the greater of ten percent of net revenues, or \$500,000 to the General Fund of the Government. In June 2003, the Legislature approved and amended the annual payment in lieu of taxes to the greater of ten percent of net revenues, as defined or \$1,000,000. On October 10, 2007, the legislature decreased the \$1,000,000 annual in lieu of tax payment to \$700,000 retroactive to fiscal year 2006 and thereafter. The liability for contributions to the Government as of September 30, 2015, is \$5,950,000 included in current liabilities in the statement of net position and represents payments in lieu of taxes due for the fiscal year 2006 and for the fiscal years 2008 through 2015. WICO is negotiating with the Government to resolve the outstanding tax liability and reduce future tax obligations.

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Capital Assets***

Capital assets are recorded at cost and depreciated using the straight-line method over the estimated useful life of the assets. The capitalization threshold for capital assets is \$5,000. Estimated useful lives of capital assets are as follows:

	<u>Years</u>
Building and building improvements	5-40
Personal property and equipment	3-25

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. Expenditures for major renewals and betterments are capitalized, while maintenance and repairs which do not extend the life of the assets are recorded as expenses.

The Authority evaluates whenever events or changes in circumstances indicate that the carrying amount of its capital assets have been impaired following the guidance of GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

***Debt Refundings***

The Authority accounts for refundings of debt under the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt by Proprietary Activities*. This Statement establishes standards of accounting and financial reporting for current and advance refundings resulting in defeasance of debt reported by proprietary activities. Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. This Statement requires for both current and advance refundings, that the difference between the reacquisition price and the net carrying amount of the old debt be classified as a deferred outflow of resources on the statement of net position and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter.



Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Bond Discounts and Premiums***

Bond discounts and premiums are amortized over the term of the related debt on a straight-line basis, which approximates the interest method. Bonds payable are reported net of the applicable bond discount or premium.

***Operating and Non-operating Revenues***

Operating revenues of the Authority include revenues of the operating fund of the Authority, revenues from the West Indian Company complex, and King's Alley Management, Inc. complex. Non-operating revenues consist of settlement proceeds, interest and dividend income generated from the restricted investments invested in short term investment instruments, federal grants, and budgetary allocations for operations. During the fiscal year ended September 30, 2015, the Authority's operating budget of \$7.1 million included \$3.5 million of budgetary allocations from excess matching funds. Unrestricted funds of \$2.2 million were budgeted for the Office of Economic Opportunity and administrative operations.

***Intra-account Transfers***

Investment earnings not otherwise restricted are transferred between Authority accounts in accordance with Board requests and Legislative acts. These amounts offset and, therefore, are not shown in the accompanying financial statements.

***Fair Value of Financial Instruments***

The Authority uses the following methods and assumptions in estimating its fair value disclosures:

*Investments (restricted and assets held in trust):* valued at quoted market prices when available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments or values obtained from independent pricing services.

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

***Fair Value of Financial Instruments (continued)***

*Cash and cash equivalents and due to/from the Government of United States Virgin Islands, receivables, accounts payable and other accrued liabilities:* the carrying amounts reported at cost or amortized cost in the statement of net position for these instruments which amounts approximate their fair values.

***Effect of Recent GASB Statements***

Effective October 1, 2014, the Authority implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, as amended by Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which establishes accounting and financial reporting standards for measuring and recognizing the net pension liabilities of the Authority, deferred outflows and inflows of resources and recognition of pension expenditures. As described further in Note 12, the Authority's employees are participants in the Government of the Virgin Islands defined benefit pension plan, which is administered by the Government Employees Retirement System of the United States Virgin Islands (the "System"). This Statement requires all component units participating in the Government's retirement plan to report the allocable share of net pension liabilities and pension expenses based on actuarial valuations using a measurement date of September 30, 2014. Pension expenses and deferred outflows and inflows of resources from changes in the components of the allocable share of net pension liability are also reported.

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

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

**Summary of Significant Accounting Policies (continued)**

*Future Adoption of GASB Statements*

Following are statements issued by GASB that are effective in future years. The impact of the adoption of these statements has not been determined by management:

Statement No.	Overview	Adoption Required in Fiscal Year
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	2017
81	Irrevocable Split-Interest Agreements	2018
82	Pension Issues – an amendment of GASB Statement 67, 68 and 73	2017

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Notes to the Financial Statements (continued)**

September 30, 2015

**2. Cash and Cash Equivalents**

Cash and cash equivalents, segregated by category at September 30, 2015, are as follows:

	<b>Bank Balance</b>	<b>Carrying Amount</b>
Restricted	\$ 132,820,280	\$ 134,816,394
Unrestricted	26,787,688	23,441,867
	\$ 159,607,968	\$ 158,258,261

Restricted cash and cash equivalents represents cash segregated for debt service due under the Authority's debt agreements and capital projects.

Unrestricted cash and cash equivalents may be used for operational purposes but may not be used for payments of dividends which are restricted by loan covenants.

At September 30, 2015, \$118,752,274 or 75.0% of the Authority's deposits in banks were held at Bank of New York, \$39,339,502 or 24.86% were held at Banco Popular de Puerto Rico, and \$165,783 or 0.1% were held at First Bank Puerto Rico. Petty cash of \$700 was held at WICO. Deposits held at Banco Popular de Puerto Rico and First Bank Puerto Rico were fully collateralized.

**3. Restricted Investments**

Investments include investments restricted for specific purposes and investments held in trust. Pursuant to the requirements of the Indenture of Trust, certain assets of the Government are maintained in a reserve account controlled by the Authority, and may be used only for the payment of principal and interest on the Series 2015 A Revenue Anticipation Notes, Series 2014 E Notes, Series 2014 D Revenue and Refunding Bonds, Series 2014 C Revenue Bonds, Series 2014 B Notes, Series 2014 A Revenue Bonds, Series 2013 B Revenue and Refunding Bonds, Series 2013 A Revenue and Refunding Bonds, Series 2013 B Notes, Series 2013 A Notes, Series 2012 C Revenue Bonds, Series 2012 A and B Revenue and Refunding Bonds, Series 2012 A Revenue Bonds, Series 2011 B Revenue Anticipation Notes, Series 2010 A and B Revenue Bonds, Series 2009 A Bonds (Cruzan), Series 2009 A1, A2, B, and C Revenue and Refunding Bonds, Series 2012 A TIF Notes, Series 2009 A Bonds (Diageo), Series 2009 A 911 Notes, Series 2006 A Revenue Bonds, Series 2004 A Revenue Bonds, and the Series 2003 A Revenue Bonds.

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Notes to the Financial Statements (continued)**

September 30, 2015

**3. Restricted Investments (continued)**

Restricted investments in the reserve accounts at September 30, 2015, were as follows:

	<b>Debt Service</b>	<b>Construction Funds</b>	<b>Project Funds</b>	<b>Total</b>
Series 2014 D Revenue Bonds	\$ —	\$ 2,580,739	\$ —	\$ 2,580,739
Series 2014 C Revenue Bonds	348,614	23,614,767	—	23,963,381
Series 2014 A Revenue Bonds	103,141	—	—	103,141
Series 2013 B Revenue and Refunding Bonds	6,572,230	—	—	6,572,230
Series 2013 A Revenue and Refunding Bonds	4,728,149	—	—	4,728,149
Series 2012 C Revenue Bonds	35,285	10,605,490	—	10,640,775
Series 2012 A and B Revenue and Refunding Bonds	22,191	—	—	22,191
Series 2012 A Revenue Bonds	18,318,437	34,444	—	18,352,881
Series 2010 A and B Revenue Bonds	49,620,173	—	—	49,620,173
Series 2009 A Bonds (Cruzan)	3,869,232	—	—	3,869,232
Series 2009 A1, A2, B, C Revenue and Refunding Bonds	54,956,172	12,718,824	—	67,674,996
Series 2009 A Bonds (Diageo)	35,343,729	—	—	35,343,729
Series 2006 Revenue Bonds	232	500,000	—	500,232
Series 1999 A Revenue Bonds	50,328,616	—	—	50,328,616
Series 1998 A Revenue Bonds	109,629,068	—	—	109,629,068
Subtotal Bonds	<u>\$ 333,875,269</u>	<u>\$ 50,054,264</u>	<u>\$ —</u>	<u>\$ 383,929,533</u>
Series 2014 E Notes	—	—	500	500
Series 2013 A Notes	156,988	—	206,094	363,082
Series 2012 A TIF Notes	68,838	—	—	68,838
Subtotal Notes	<u>225,826</u>	<u>—</u>	<u>206,594</u>	<u>432,420</u>
Total Bonds and Notes	<u>\$ 334,101,095</u>	<u>\$ 50,054,264</u>	<u>\$ 206,594</u>	<u>\$ 384,361,953</u>

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

**3. Restricted Investments (continued)**

Restricted investments, categorized by investment type, and weighted average maturity, at September 30, 2015, are as follows:

	Fair Value	Weighted Average Maturity (Years)
Money Market Funds	\$ 345,212,145	
Portfolio investments:		
Commercial paper	39,149,808	0.003
Total fair value	39,149,808	0.003
Total investments	\$ 384,361,953	

**Interest-Rate Risk.** Interest-rate risk represents the exposure to fair market value losses arising from increasing interest rates. The Authority does not have a formal investment policy that limits investment maturities as a means of managing such exposure. As a means of keeping the interest-rate risk low, all investments held by the Authority are short-term in nature.

**Credit Risk.** The authorizing legislation of the Authority does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the Authority to: direct obligations or obligations guaranteed by the United States, obligations of states, territories, possessions and commonwealths of the United States, obligations of international banking institutions, repurchase agreements, investment contracts, certificates of deposits, guaranteed investment contracts, shares in mutual funds, investment companies, corporate commercial paper, money market portfolio and investment pools.

At September 30, 2015, the Authority's investment in money market funds were rated AAAM by Standard & Poor's, Aaa-mf and Aaa- by Moody's Investor Service. The Authority's investments in commercial securities were rated A-1+ by Standard & Poor's and P-1 by Moody's. The Authority's investments in Federal Government instruments were rated A-1 by Standard & Poor's and P-1 by Moody's Investor Service.

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**3. Restricted Investments (continued)**

***Custodial Credit Risk.*** The Authority does not have a custodial credit risk policy. This is the risk that the Government will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2015, all investments under management by the Authority were held in the name of The Bank of New York Trust Company, N.A., as Trustee for the Authority. Investments in the trust accounts are limited to the investments permitted by the trust indenture.

**4. Restricted Loans Receivable**

The Authority loaned the proceeds of the Series 2015 A Revenue Anticipation Notes to the Government. The loans, which are secured with pledged property taxes collected for 2015 pursuant to Title 3, Section 31 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable.

The Authority loaned the proceeds of the Series 2014 E Notes, Series 2014 D Revenue and Refunding Bonds, Series 2014 C Revenue Bonds, Series 2014 B Revenue Notes, Series 2014 A Revenue Bonds, Series 2013 B Revenue Notes, Series 2013 A Revenue Notes, Series 2012 C Revenue Bonds, Series 2012 A and B Revenue and Refunding Bonds, Series 2011 A Broadband Bond Anticipation Note, Series 2009 A 911 Notes, Series 2006 A Revenue Bonds, Series 2003 A Revenue Bonds, and the Series 1999 A Revenue Bonds to the Government. The loans, which are secured with pledged gross receipts taxes collected pursuant to Title 3, Section 43 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable (see Note 6 and Note 7).

The Authority loaned the proceeds of the Series 2013 B Revenue and Refunding Bonds, Series 2013 A Revenue and Refunding Bonds, Series 2012 A Revenue Bonds, Series 2010 A and B Revenue Bonds, Series 2009 A Bonds (Cruzan), Series 2009 A1, A2, B and C Revenue and Refunding Bonds, Series 2009 A Bonds (Diageo), and the Series 2004 A Revenue Bonds to the Government. The loans, which are secured with pledged matching fund revenues pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, bear the same interest rates, maturities, and repayment terms as the bonds payable (see Note 6).

The Authority loaned the proceeds of the Series 2012 A TIF Notes to the Government. The loan, which is secured by Island Crossings Incremental Tax Revenue, bears the same interest rate, maturity, and repayment terms as the note payable (see Note 7).

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Notes to the Financial Statements (continued)**

September 30, 2015

**4. Restricted Loans Receivable (continued)**

The Authority loaned the proceeds of the Series 2011 B Revenue Anticipation Notes to the Government. The loans, which are secured with pledged property taxes collected for tax years up to and including 2005 pursuant to Title 3, Section 31 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable (see Note 7).

On September 30, 2015, the Government advanced bond payments due on October 1, 2015. A summary of bond payments by associated bond series follows:

<u>Bonds Series</u>	<u>Payment</u>
2014 D Bond	\$ 165,000
2014 C Bond	4,555,000
2014 A Bond	1,480,000
2013 B Bond	5,070,000
2013 A Bond	2,210,000
2012 C Bond	1,720,000
2012 A and B Bonds	12,400,000
2012 A Bond	825,000
2010 A and B Bonds	2,270,000
2009 A Bonds (Cruzan)	670,000
2009 A1, A2, B and C Bonds	27,955,000
2009 A Bonds (Diageo)	4,575,000
2006 Bonds	3,125,000
	<u>\$ 67,020,000</u>



**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**5. Capital Assets**

The capital assets for the fiscal year ended September 30, 2015, follows:

	<b>Balance 9/30/2014</b>	<b>Additions</b>	<b>Impairment/ Disposal</b>	<b>Transfers</b>	<b>Balance 9/30/2015</b>
Capital assets not being depreciated:					
Land and land improvements	\$ 5,763,178	\$ –	\$ –	\$ –	\$ 5,763,178
Construction in progress	20,435,713	5,229,765	–	(20,554,559)	5,110,919
Capital assets being depreciated:					
Buildings and building improvements	69,670,650	273,736	–	2,339,018	72,283,404
Personal property and equipment	52,379,503	190,425	(18,268)	17,918,102	70,469,762
Intangible assets	18,591,987	–	–	44,850	18,636,837
Total	166,841,031	5,693,926	(18,268)	(252,589)	172,264,100
Less accumulated depreciation	(35,472,478)	(6,749,495)	(462,686)	–	(42,684,659)
Total capital assets, net	\$ 131,368,553	\$ (1,055,569)	\$ (480,954)	\$ (252,589)	\$ 129,579,441

**6. Bonds Payable**

A summary of bond activity for the fiscal year ended September 30, 2015, follows (in thousands):

	<b>Bonds Outstanding 9/30/2014</b>	<b>New Issuances</b>	<b>Debt Payments</b>	<b>Refunded</b>	<b>Bonds Outstanding 9/30/2015</b>
	<i>(In thousands)</i>				
Matching Funds Revenue Bonds	\$ 1,283,480	\$ –	\$ (38,750)	\$ –	\$ 1,244,730
Gross Receipts Revenue Bonds	746,570	252,815	(20,340)	(233,290)	745,755
Total	\$ 2,030,050	\$ 252,815	\$ (59,090)	\$ (233,290)	\$ 1,990,485

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**6. Bonds Payable (continued)**

At September 30, 2015, long-term debt consist of

	<b>2015</b>
	<i>(In thousands)</i>
Revenue Bonds payable:	
Matching Funds Revenue Bonds	\$ 1,244,730
Gross Receipts Revenue Bonds	745,755
Plus unamortized premium/discount, net	2,219
Plus deferred loss on refunding	1,959
Total capital assets, net	\$ 1,994,663

**Matching Funds Revenue Bonds**

A summary of Matching Funds Revenue bond activity for the fiscal year ended September 30, 2015, follows (in thousands):

	<b>Bonds Outstanding 9/30/2014</b>	<b>New Issuances</b>	<b>Debt Payments</b>	<b>Refunded</b>	<b>Bonds Outstanding 9/30/2015</b>
	<i>(In thousands)</i>				
Series 2013 B	\$ 51,365	\$ -	\$ -	\$ -	\$ 51,365
Series 2013 A	36,000	-	-	-	36,000
Series 2012 A	142,640	-	(800)	-	141,840
Series 2010 A and B	394,995	-	(2,155)	-	392,840
Series 2009 A (Cruzan)	36,885	-	(640)	-	36,245
Series 2009 A1, A2, B and C	371,230	-	(26,460)	-	344,770
Series 2009 A (Diageo)	245,960	-	(4,290)	-	241,670
Series 2004 A	4,405	-	(4,405)	-	-
Total	\$ 1,283,480	\$ -	\$ (38,750)	\$ -	\$ 1,244,730

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

Bonds payable at September 30, 2015, in which federal arbitrage regulations apply, are comprised of the following (in thousands):

Series 2013 B Revenue and Refunding Bonds		
Interest at 3.00% to 5.00%	\$	51,365
Series 2013 A Revenue and Refunding Bonds		
Interest at 5.00% to 5.25%		36,000
Series 2012 A Revenue Bonds		
Interest at 4.00% to 5.00%		141,840
Series 2010 A and B Revenue Bonds		
Interest at 4.00% to 5.25%		392,840
Series 2009 A Revenue Bonds (Cruzan)		
Interest at 3.00% to 6.00%		36,245
Series 2009 A1, A2, B and C Revenue and Refunding Bonds		
Interest at 3.00% to 5.00%		344,770
Series 2009 A Revenue Bonds (Diageo)		
Interest at 6.00% to 6.75%		241,670
Total bonds payable		1,244,730
Less: Current portion		(43,575)
More: Unamortized bond premiums and discounts, net		2,219
Long-term portion of bonds payable	\$	1,203,374

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

On October 17, 2013, the Authority issued the Series 2013 B Revenue and Refunding Bonds, the proceeds of which amounted to \$51,365,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Eighth Supplemental Indenture and the Series 2013B Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2013 B Bonds were issued to: (i) refund a portion of the Series 2004 A Bonds, (ii) fund the Series 2013 B Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2013 B Bonds. The Series 2013 B Bonds mature 2024 at an interest rate of 3.0% to 5.0%. The proceeds of the Series 2013 B Revenue and Refunding Bonds were placed in an irrevocable trust to provide for future debt service payments on the Series 2004 A. At October 1, 2014, the outstanding principal of the Series 2004 A Bonds was defeased through a call redemption amounting to \$58,835,000.

On September 19, 2013, the Authority issued the Series 2013 A Revenue and Refunding Bonds, the proceeds of which amounted to \$36,000,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Eighth Supplemental Indenture and the Series 2013 A Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2013 A Bonds were issued to: (i) refund a portion of the Series 2004 A Bonds, Series 2009 A1 Bonds, and Series 2009 B Bonds, (ii) fund the Series 2013 A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2013 A Bonds. The Series 2013 A Bonds mature from 2018 to 2024 at an interest rate of 5.0% to 5.25%. The proceeds of the Series 2013 A Revenue and Refunding Bonds were placed in an irrevocable trust to provide for future debt service payments on the Series 2004 A, Series 2009 A1, and Series 2009 B Bonds. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a deferred loss of approximately \$10.9 million and an economic loss of approximately \$1.5 million.

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

On September 7, 2012, the Authority issued the Series 2012 A Revenue Bonds, the proceeds of which amounted to \$142,640,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Seventh Supplemental Indenture and the Series 2012 Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2012 A Bonds were issued to: (i) finance various operating expenses and other obligations of the Government, (ii) fund the Series 2012 A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2012 A Bonds. The Series 2012 A Bonds mature from 2022 to 2032 at an interest rate of 4.0% to 5.0%.

On July 8, 2010, the Authority issued the Series 2010 A and B Revenue Bonds, the proceeds of which amounted to \$399,050,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Sixth Supplemental Indenture and the Series 2010 Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2010 A Bonds were issued to: (i) finance various operating expenses of the Government, (ii) refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (iii) fund the Series 2010 A Subordinate Lien Debt Service Reserve Account, and (iv) finance certain costs of issuance of the Series 2010 A Bonds. The Series 2010 B Bonds were issued to: (i) refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (ii) fund the Series 2010 B Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2010 B Bonds. The Series 2010 A Bonds amount to \$305,000,000 and mature from 2012 to 2029 at an interest rate of 4.00% to 5.00%. The Series 2010 B Bonds amount to \$94,050,000 and mature from 2020 to 2029 at an interest rate of 4.25% to 5.25%.

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

On December 17, 2009, the Authority issued the Series 2009 A Bonds (Cruzan), amounting to \$39,190,000, to finance the costs of the development, acquisition, construction and installation of a wastewater treatment facility and to fund certain preliminary costs of the alteration, upgrade, expansion and renovation of the Cruzan distillery on St. Croix, to establish debt service reserves, and to finance costs of issuance of the 2009 A Bonds. These bonds are special limited obligations of the Authority payable from and secured by a pledge of the Cruzan Trust estate which includes certain funds established under the Subordinated Indenture and the First Supplemental Subordinate Indenture of Trust. The bonds bear interest at 3.00% to 6.00% and mature from 2010 to 2039 and are subject to an optional redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

In association with the Series 2009 A Bonds, the Authority entered into an agreement with Cruzan VIRIL, Ltd. (Cruzan), on October 6, 2009. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to the Government and Cruzan of 60% - 80%, and 54% - 60%, respectively.

On October 1, 2009, the Authority issued the Series 2009 A1, Series 2009 A2, Series 2009 B, and Series 2009 C Revenue and Refunding Bonds, the proceeds of which amounted to \$458,840,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Fourth Supplemental Indenture and the Series 2009 Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2009 A1 and the Series 2009 A2 Bonds were issued to: (i) finance various capital projects of the Government, (ii) fund the Series 2009 A Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 A1 and 2009 A2 Bonds. The Series 2009 A1 Bonds amounted to \$86,350,000 and mature from 2010 to 2039 at interest rates from 3.00% to 5.00%. The Series 2009 A2 Bonds amount to \$8,650,000 and mature from 2010 to 2011 at an interest rate of 3.00%. The Series 2009 B Bonds were issued to: (i) current refund the Series 1998 A Revenue and Refunding Bonds (Senior Lien/Refunding Bonds), (ii) fund the Series 2009 B Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 B Bonds. The Series 2009 B Bonds amount to \$266,330,000 and mature from 2010 to 2025 at an interest rate of 5.00%. The Series 2009 C Bonds were issued to: (i) current refund the Series 1998 E Revenue and Refunding Bonds (Subordinate Lien/Capital Program Bonds), (ii) fund the

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

Series 2009 C Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 C Bonds. The Series 2009 C Bonds amounted to \$97,510,000, and mature from 2010 to 2022 at an interest rate of 5.00%. The Series 2009 Bonds are subject to optional redemption by the Authority on or after October 1, 2019, at redemption price of 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

On July 9, 2009, the Authority issued the Series 2009 A Bonds (“Diageo”), the proceeds of which amounted to \$250,000,000. These bonds are secured by a pledge of Diageo Matching Fund Revenues (Matching Funds generated from the sale of Captain Morgan rum products), which includes certain funds established under the original indenture, the Third Supplemental Indenture and the 2009 Matching Fund Loan Note – Diageo Project, Series A issued by the Government. The bonds bear interest at 6.00% to 6.75% and mature from 2013 to 2037. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The bonds were issued to: (i) provide a grant to Diageo USVI, Inc. (“Diageo USVI”) to finance the costs of the acquisition, design, development, construction and equipping of a rum production and maturation warehouse facility to be located on St. Croix (the Diageo Project) (ii) redeem the Subordinated Revenue Bond Anticipation Notes (Virgin Islands Matching Fund Loan Notes – Diageo Project) Series 2009 A issued to finance preliminary costs of the Diageo Project (iii) fund the Series 2009 A Senior Lien Debt Service Reserve Account, (iv) pay capitalized interest on the Series 2009 A Bonds, and (v) finance certain costs of issuance of the Series 2009 A Bonds. The Series 2009 A Bonds maturing on or after October 1, 2020 shall be subject to optional redemption on or after October 1, 2019, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

In association with the Series 2009 A Bonds, the Authority entered into an agreement with Diageo USVI, Inc. (Diageo), on June 17, 2008. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to Diageo of 49.5% - 57.0%.

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**Notes to the Financial Statements (continued)**

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

On December 1, 2004 the Authority issued the Series 2004 A Bonds, the proceeds of which amounted to \$94,000,000. The Government pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2024. The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix (ii) finance the repairs, renovations and construction of solid waste facilities in the Territory (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the newly created Virgin Islands Waste Management Authority, (v) fund the Series 2004 A Senior Lien Debt Service Reserve Subaccount and (vi) pay certain costs of issuing the Series 2004 A Bonds. On October 1, 2014, the Authority exercised an optional call redemption to fully defease the bonds.

The proceeds of the Series 1992 Revenue bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue bonds. At September 30, 2015, the outstanding principal of defeased Series 1989 bonds was \$7,920,000.

All assets held by irrevocable trusts for the refunding of prior outstanding debt and the corresponding liabilities are not included in the Authority's financial statements.

***Pledged Funds***

The Government has pledged the Matching Fund Revenues, as described below, to the timely payment of principal and interest on the Series 2013 B Bonds, Series 2013 A Bonds, Series 2012 A Bonds, Series 2010 A and B Bonds, Series 2009 A Bonds (Cruzan), the Series 2009 A1, A2, B and C Bonds, the Series 2009 A Bonds (Diageo), and the Series 2004 A Bonds. Thus, all amounts to be received by the Government from federal rum excise tax are deposited directly in a trust account from which the 2013 B, 2013 A, 2012 A, 2010 A and B, 2009 A Cruzan, 2009 A1, A2, B and C, 2009 A Diageo, and 2004 Bonds are paid in accordance with the Indenture of Trust.



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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

*Pledged Funds (continued)*

The Secretary of the United States Department of Treasury makes annually, certain transfers to the Government of substantially all excise taxes imposed and collected under the internal revenue laws of the United States in any fiscal year on certain products produced in the Virgin Islands (primarily rum), and exported to the United States from the Virgin Islands. The amount required to be remitted to the Government by the Secretary of the Treasury is an amount no greater than the total amount of local revenues (primarily taxes) collected by the Government in each fiscal year. The term “matching fund revenues” is used to denote these payments.

Estimated prepayments of matching fund revenues are made to the Government prior to the beginning of each fiscal year, subject to adjustment for the amount of local revenue actually collected by the United States Department of Treasury during such year. Such adjustments are made to the estimated prepayments for a subsequent fiscal year.

***Interest on Bonds***

Interest on the Series 2013 B Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2013 B Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the Series 2013 A Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2013 A Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

*Interest on Bonds (continued)*

Interest on the Series 2012 A Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 A Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the Series 2010 A and B Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2010 A and B Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues. The bonds were fully defeased through an optional redemption on October 1, 2014.

Interest on the Series 2009 A Bonds (Cruzan) is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2009 A Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the Series 2009 A1, A2, B and C Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2009 A1, A2, B and C Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

*Interest on Bonds (continued)*

Interest on the Series 2009 A Bonds (Diageo) is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2009 A Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the Series 2004 A Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2004 A Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest expense related to matching fund revenue bonds payable during the fiscal year ended September 30, 2015, was as follows (in thousands):

Series 2013 B Revenue and Refunding Bonds	\$ 2,414
Series 2013 A Revenue and Refunding Bonds	1,830
Series 2012 A Revenue Bonds	7,012
Series 2010 A and B Revenue Bonds	19,773
Series 2009 A Revenue Bonds (Cruzan)	2,139
Series 2009 A1, A2, B, C Revenue and Refunding Bonds	17,112
Series 2009 A Revenue Bonds (Diageo)	16,203
Total	<u>\$ 66,483</u>

**Virgin Islands Public Finance Authority**  
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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

*Debt Service Requirements on Bonds*

Maturity dates and debt service payment requirements as of September 30, 2015, for the Matching Funds Revenue Bonds are as follows (in thousands):

<b>October 1</b>	<b>Total Debt Services</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2016	\$ 43,575	\$ 65,420	\$ 108,995
2017	45,670	63,216	108,886
2018	47,680	60,849	108,529
2019	50,170	58,334	108,504
2020	52,725	55,683	108,408
2021-2025	308,990	233,213	542,203
2026-2030	381,675	143,284	524,959
2031-2035	221,925	54,559	276,484
2036-2040	92,320	10,890	103,210
	<u>\$ 1,244,730</u>	<u>\$ 745,448</u>	<u>\$ 1,990,178</u>

The Series 2013 B and Series 2013 A Bonds are not redeemable at the option of the Authority.

The Series 2012 A Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<b>Series 2012 A Bonds</b>	<b>Price</b>
October 1, 2023 and thereafter	100%

Virgin Islands Public Finance Authority  
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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

*Debt Service Requirements on Bonds (continued)*

The Series 2010 A and B Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Series 2010 A and B Bonds</u>	<u>Price</u>
October 1, 2021 and thereafter	100%

The Series 2009 A Bonds (Cruzan) maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Series 2009 A Bonds (Cruzan)</u>	<u>Price</u>
October 1, 2019 and thereafter	100%

The Series 2009 A1, A2, B and C Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Series 2009 A1, A2, B and C Bonds</u>	<u>Price</u>
October 1, 2019 and thereafter	100%

The Series 2009 A Bonds (Diageo) maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Series 2009 A Bonds (Diageo)</u>	<u>Price</u>
October 1, 2020 and thereafter	100%

Virgin Islands Public Finance Authority  
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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Matching Funds Revenue Bonds (continued)**

*Debt Service Requirements on Bonds (continued)*

The Series 2004 A Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<b>Series 2004 A Bonds</b>	<b>Price</b>
October 1, 2014 and thereafter	100%

**Gross Receipts Revenue Bonds**

A summary of Gross Receipts Revenue bond activity for the fiscal year ended September 30, 2015, follows (in thousands):

	<b>Bonds Outstanding 9/30/2014</b>	<b>New Issuances</b>	<b>Debt Payments</b>	<b>Refunded</b>	<b>Bonds Outstanding 9/30/2015</b>
	<i>(In thousands)</i>				
Series 2014 D	\$ —	\$ 5,765	\$ —	\$ —	\$ 5,765
Series 2014 C	—	247,050	—	—	247,050
Series 2014 A	49,640	—	—	—	49,640
Series 2012 C	35,115	—	(1,670)	—	33,445
Series 2012 A and B	218,345	—	(11,445)	—	206,900
Series 2006 A	205,970	—	(3,015)	—	202,955
Series 2003 A	237,500	—	(4,210)	(233,290)	—
<b>Total</b>	<b>\$ 746,570</b>	<b>\$ 252,815</b>	<b>\$ (20,340)</b>	<b>\$ (233,290)</b>	<b>\$ 745,755</b>

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**6. Bonds Payable (continued)**

**Gross Receipts Revenue Bonds (continued)**

Gross Receipts Revenue bonds payable at September 30, 2015, in which federal arbitrage regulations apply are comprised of the following (in thousands):

Series 2014 D Revenue Bonds		
Interest at 6.029%	\$	5,765
Series 2014 C Revenue and Refunding Bonds		
Interest at 4.50% to 5.00%		247,050
Series 2014 A Revenue Bonds		
Interest at 5.00%		49,640
Series 2012 C Revenue Bonds		
Interest at 3.00% to 5.00%		33,445
Series 2012 A and B Revenue and Refunding Bonds		
Interest at 2.25% to 5.25%		206,900
Series 2006 A Revenue Bonds		
Interest at 3.50% to 5.00%		<u>202,955</u>
Total bonds payable		<u>745,755</u>
Less: Current portion		(23,445)
More: Unamortized bond premiums and discounts, net		<u>1,959</u>
Long-term portion of bonds payable	\$	<u><u>724,269</u></u>

On December 3, 2014, the Authority issued the Series 2014 D Revenue Bonds, the proceeds of which amounted to \$5,765,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The Series 2014 D Bonds were issued to (i) finance certain costs associated with the broadband expansion program, (ii) fund the debt service reserve of the Series 2014 D Bonds in an amount necessary to meet debt service requirements, and (iii) pay the costs of issuance related to the Series 2014 D Bonds accounts. The Series 2014 D Bonds mature in 2033 at an interest rate of 6.03%.

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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Gross Receipts Revenue Bonds (continued)**

On November 14, 2014, the Authority issued the Series 2014 C Revenue and Refunding Bonds, the proceeds of which amounted to \$247,050,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The Series 2014 C Bonds were issued to (i) refund the outstanding Series 2003 A Bonds, (ii) finance all or a portion of the costs of certain capital projects, and (iii) pay the costs of issuance related to the Series 2014 C Bonds. The Series 2014 C Bonds mature from 2015 to 2044 at an interest rate of 5.00% to 4.50%.

The proceeds of the Series 2014 C Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2016 to 2034 maturities of the Series 2003 A Bonds. Approximately \$235,249,196 of bond proceeds were deposited into the Escrow Fund accounts. On December 1, 2014, the Series 2003 A bonds were defeased through the exercise of call redemptions.

On September 5, 2014, the Authority issued the Series 2014 A Revenue Bonds, the proceeds of which amounted to \$49,640,000. These bonds are secured by the pledge of gross receipts tax revenues, and are subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) finance all or a portion of the costs of certain capital projects, as authorized by the Virgin Islands Legislature in 2013 V.I. Act 7499, as amended by 2014 V.I Act 7631 as further amended by 2014 V.I. Act 7637 and approved by the Authority by resolution, (ii) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve Requirement, and (iii) pay the costs and expenses of issuing and delivering the Series 2014 A Bonds. The Series 2014 A Bonds mature from 2015 to 2034 at an interest rate of 5.0%.

On December 19, 2012, the Authority issued the Series 2012 C Revenue Bonds, the proceeds of which amounted to \$35,115,000. These bonds are secured by the pledge of gross receipts tax revenues, and are subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) provide a loan to the Government to be used to finance certain operating expenses and other obligations of the Government, (ii) fund capitalized interest on a portion of the Series 2012 C Bonds, and (iii) pay the costs and expenses of issuing and delivering the Series 2012 C Bonds. The Series 2012 C Bonds mature from 2017 to 2042 at an interest rate of 3.0% to 5.0%.



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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Gross Receipts Revenue Bonds (continued)**

On November 20, 2012, the Authority issued the Series 2012 A and B Revenue and Refunding Bonds, the proceeds of which amounted to \$228,805,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The Series 2012A Bonds were issued to (i) refund the outstanding Series 1999 A Bonds, (ii) refund the outstanding 2010 A1 and A2 Notes, (iii) pay the costs and expenses of issuing and delivering the Series 2012 A Bonds, and (iv) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve requirement related to the Series 2012 A Bonds. The Series 2012 A Bonds mature from 2017 to 2032 at an interest rate of 2.25% to 5.0%. The Series 2012 B Bonds were issued to (i) refinance the outstanding 2011 A Notes, which initially financed the Broadband Project, (ii) pay the costs and expenses of issuing and delivering the Series 2012 B Bonds, and (iii) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve requirement related to the Series 2012 B Bonds. The Series 2012 B Bonds mature in 2027 at an interest rate of 5.25%.

The current refunding of the Series 1999 A Bonds, on November 20, 2012, was made in order to obtain lower interest rates. The economic gain obtained by this current refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately \$11.9 million and an economic gain of approximately \$7.7 million.

On September 28, 2006 the Authority issued the Series 2006 A Bonds, the proceeds of which amounted to \$219,490,000. These bonds are secured by a pledge of the Trust estate, which includes certain funds established under the original Indenture, the Seventh Supplemental Indenture and the 2006 Gross Receipts Taxes Loan Note, Series issued by the Government. The proceeds were loaned to the Government under the same terms as the Bonds. The bonds are limited special obligations of the Authority. The bonds bear interest at 3.50% to 5.00% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) refund a portion of the Authority's Revenue Bonds, Series 1999 A, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund the Debt Service Reserve Account, (v) pay certain costs of issuing the Series 2006 A Bonds and (vi) fund a net payment reserve account for a new swap agreement. The Series 2006 A Bonds maturing on or before October 1, 2016 are not subject to optional redemption. The advance refunding of the 2024 and 2029 maturities of the Series 1999 A Bonds was made in order to obtain lower interest rates.

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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Gross Receipts Revenue Bonds (continued)**

The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately \$40.8 million and an economic gain of approximately \$25.6 million.

The proceeds of the Series 2006 A Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2024 to 2029 maturities of the Series 1999 A Bonds. Approximately \$175,125,168 of funds was deposited into the Escrow Fund accounts. At September 30, 2015, the amount of outstanding advance refunded Series 1999A Revenue Bonds amounted to \$66,770,000.

On December 17, 2003, the Authority issued the Series 2003 A Revenue Bonds the proceeds of which amounted to \$268,020,000. These bonds are secured by a pledge of the Trust estate, which includes certain funds established under the original Indenture, the Fourth Supplemental Indenture and the 2003 Gross Receipts Taxes Loan Note, Series A issued by the Government. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2033. The proceeds were loaned to the Government under the same terms as the Bonds. The bonds are limited special obligations of the Authority. The bonds were issued to: (i) repay the Authority's outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund the Debt Service Reserve Accounts, and (iv), pay certain costs of issuing the Series 2003 A Bonds. On November 14, 2014, the Authority advance refunded the Series 2003 A Bonds with maturity dates of October 1, 2015 through October 1, 2033 totaling \$233,290,000. On December 1, 2014, the bonds were fully defeased through a call redemption.

***Pledged Funds***

The Government has pledged Gross Receipts Taxes subject to the annual moderate income housing fund deposit, as well as any prior lien or pledge, to the timely payment of the principal and interest on the Series 2014 E Notes, Series 2014 D Bonds, Series 2014 C Bonds, Series 2014 B Notes, Series 2014 A Bonds, Series 2013 B Notes, Series 2013 A Notes, Series 2012 C Bonds, Series 2012 A and B Bonds, Series 2011 A Notes, Series 2010 A1 and A2 Notes, the Series 2009 A 911 Notes, Series 2006 A Bonds, and the Series 2003 A Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Gross Receipts Revenue Bonds (continued)**

*Pledged Funds (continued)*

All assets held by irrevocable trusts for the refunding of prior outstanding debt and the corresponding liabilities are not included in the Authority's financial statements.

*Interest on Bonds*

Interest on the Series 2014 D Bonds is payable semi-annually on April 1 and October 1, and the principal is payable in total on October 1, 2033. The Government is responsible for all principal and interest payments on the Series 2014 D Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest on the Series 2014 C Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2014 C Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest on the Series 2014 A Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2014 A Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest on the Series 2012 C Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 C Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Virgin Islands Public Finance Authority  
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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Gross Receipts Revenue Bonds (continued)**

*Interest on Bonds (continued)*

Interest on the Series 2012 A and B Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 A and B Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest on the Series 2006 A Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2006 A bonds. The principal and interest payments on October 1 are funded by Gross Receipts taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts taxes.

Interest on the Series 2003 A Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2003 A Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

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**Notes to the Financial Statements (continued)**

September 30, 2015

**6. Bonds Payable (continued)**

**Gross Receipts Revenue Bonds (continued)**

***Interest on Bonds (continued)***

Interest expense related to bonds payable during the fiscal year ended September 30, 2015, was as follows (in thousands):

Series 2014 D Revenue Bonds	\$	288
Series 2014 C Revenue Bonds		10,890
Series 2014 A Revenue Bonds		2,661
Series 2012 C Revenue Bonds		1,566
Series 2012 A and B Revenue and Refunding Bonds		9,224
Series 2006 A Revenue Bonds		9,826
		34,455
Other interest expense mainly related to loans and notes payable outstanding		1,812
Total		\$ 36,267

Maturity dates and debt service payment requirements as of September 30, 2015, for the Gross Receipts Revenue Bonds are as follows (in thousands):

October 1	Total Debt Services		
	Principal	Interest	Total
2016	\$ 23,445	\$ 35,317	\$ 58,762
2017	24,525	34,448	58,973
2018	25,425	33,538	58,963
2019	26,205	32,475	58,680
2020	27,450	31,248	58,698
2021-2025	165,640	134,438	300,078
2026-2030	218,145	86,227	304,372
2031-2035	205,535	27,605	233,140
2036-2040	12,920	5,501	18,421
2041-2045	16,465	1,957	18,422
	\$ 745,755	\$ 422,754	\$ 1,168,509

Virgin Islands Public Finance Authority  
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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Gross Receipts Revenue Bonds (continued)**

*Debt Service Requirements on Bonds (continued)*

The Series 2014 D Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Series 2014 D Bonds</u>	<u>Price</u>
Any time prior to maturity	100% Make-Whole Redemption Price

The Series 2014 C Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Series 2014 C Bonds</u>	<u>Price</u>
October 1, 2024 and thereafter	100%

The Series 2014 A Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Series 2014 A Bonds</u>	<u>Price</u>
October 1, 2024 and thereafter	100%

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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Gross Receipts Revenue Bonds (continued)**

***Debt Service Requirements on Bonds (continued)***

The Series 2012 C Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Series 2012 C Bonds</u>	<u>Price</u>
October 1, 2030 and thereafter	100%

The 2012 Series A and B Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Series 2012 A and B Bonds</u>	<u>Price</u>
October 1, 2032 (Series 2012 A)	100%
October 1, 2027 (Series 2012 B)	Make-Whole Redemption Price

The Series 2006 A Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

<u>Series 2006 A Bonds</u>	<u>Price</u>
October 1, 2016 and thereafter	100%

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Notes to the Financial Statements (continued)

September 30, 2015

**6. Bonds Payable (continued)**

**Gross Receipts Revenue Bonds (continued)**

***Debt Service Requirements on Bonds (continued)***

The Series 2003 A Bonds are not subject to optional redemption prior to October 1, 2014. The Authority may redeem these bonds at the respective redemption prices, expressed as a percentage of the principal amount redeemed as follows:

<b>Series 2003 A Bonds</b>	<b>Price</b>
October 1, 2014 and thereafter	100%

**7. Loans and Notes**

Loans and notes outstanding for the fiscal year ended September 30, 2015, follows (in thousands):

	<b>Loans Outstanding 9/30/2014</b>	<b>New Issuances</b>	<b>Debt Payments</b>	<b>Loans Outstanding 9/30/2015</b>
	<i>(In thousands)</i>			
2015 A Revenue Anticipation Notes	\$ —	\$ 40,000	\$ —	\$ 40,000
2015 E Notes	—	40,000	—	40,000
2014 B Notes	14,000	—	(2,000)	12,000
2013 A Notes	4,248	—	(1,733)	2,515
2011 B Revenue Anticipation Notes	6,937	—	(1,121)	5,816
2012 A TIF Notes	13,280	—	(260)	13,020
2009 A 911 Notes	899	—	(899)	—
WICO	28,517	3,750	(390)	31,877
<b>Total</b>	<b>\$ 67,881</b>	<b>\$ 83,750</b>	<b>\$ (6,403)</b>	<b>\$ 145,228</b>



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**Notes to the Financial Statements (continued)**

September 30, 2015

**7. Loans and Notes (continued)**

On September 25, 2015, the Authority issued the Series 2015 A Property Tax Revenue Anticipation Note in the aggregate amount of \$40,000,000. The purpose of the 2015 A Note is to provide a loan to the Government to (i) finance certain operating expenses and other financial obligations of the Government, (ii) establish debt service reserves, and (iii) pay loan issuance costs. The 2015 A Note has a maturity date of September 30, 2017. Principal is payable in twenty-three (23) consecutive monthly installments commencing on November 2, 2016. Interest is assessed monthly at 50 points above the prime rate, as reported by the Wall Street Journal bank survey.

On December 4, 2014, the Authority issued the Subordinate Lien Revenue Anticipation Notes Series 2015 E (Virgin Islands Gross Receipts Taxes Loan Note), in the aggregate amount of \$40,000,000 (the “2015 E Notes”). The purpose of the 2015 E Notes is to provide a loan to the Government to (i) provide funds for any purpose for which the Government is authorized to use and expend monies, including but not limited to current expenses, capital expenditures, and discharge of any obligations of the Government, and (ii) pay the costs of issuance of the Series 2015 E Notes.

On November 12, 2014, WICO finalized an interim financing agreement to procure a loan payable to Bank Popular de Puerto Rico. The agreement provided for Banco Popular de Puerto Rico to extend a loan to WICO in the amount of approximately of \$3,750,000 bearing interest at 6.75% per annum. The loan has an interest-only repayment period of twelve (12) months from issue date. Additionally, the payments are based on a 25-year amortization, with final maturity in six (6) years. This interim financing provides additional funding to initiate Phase II WICO pier construction projects.

On September 12, 2014, the Authority issued the Subordinate Lien Revenue Notes, Series 2014 B (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of \$14,000,000 (the “2014 B Notes”). The proceeds of the Series 2014 B Notes were loaned to the Government under the same terms, for the purposes of (i) financing general obligations of the Government, and (ii) paying certain costs of issuing the 2014 B Notes. Principal is payable in eighty-four (84) consecutive monthly principal installments commencing on November 1, 2014. Interest is assessed at 375 points above the 90-day LIBOR rate.

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**Notes to the Financial Statements (continued)**

September 30, 2015

**7. Loans and Notes (continued)**

On August 22, 2013, the Authority issued the Subordinate Lien Revenue Anticipation Notes Series 2013 B (Virgin Islands Gross Receipts Taxes Loan Note), in the aggregate amount of \$40,000,000 (the “2013 B Notes”). The purpose of the 2013 B Notes is to provide a loan to the Government to finance (i) settlement of the IRS liability related to the Series 2006 A Bonds audit, (ii) certain operating expenses of the Government, and (iii) loan issuance costs. On September 30, 2013, \$40,000,000 of principal was repaid to the lender.

On October 18, 2013, WICO finalized an agreement to refinance the existing Banco Popular loan to \$28,517,391 at the effective interest rate of 6.18% per annum. The loan has an interest only repayment period of twelve months from issue date. Additionally, the payments are based on a 25-year amortization, with a final maturity in six (6) years. The final loan payment is a balloon payment of the outstanding principal balance, plus unpaid interest accrued and fees to the date of final payment. WICO’s intent is to refinance the remaining outstanding debt prior to maturity of the note.

On October 16, 2013, and March 27, 2014, the Authority made draws against the Series 2013 B Revenue Anticipation Note amounting to \$20,000,000 and \$20,000,000, respectively. The proceeds of the draws were used to: (i) finance certain operating expenses and other financial obligations of the Government, and (ii) pay loan issuance costs. The 2013B Note has a maturity date of September 30, 2015, and has a 6.0% interest rate. As of September 30, 2015, \$40,000,000 of principal was repaid to the lender.

On May 14, 2013, the Authority issued the Subordinate Lien Revenue Notes, Series 2013 A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of \$6,700,000 (the “2013 A Notes”). The proceeds of the Series 2013 A Notes were loaned to the Government under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the 2013 A Notes. Principal and interest are paid in monthly installments following each respective draw and continuing thereafter for thirty-five (35) consecutive monthly principal installments. Interest is assessed at 375 points above the 90-day LIBOR rate. At September 30, 2015, the Authority had drawn \$5.43 million of loan funds and repaid \$2.92 million.

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Notes to the Financial Statements (continued)

September 30, 2015

**7. Loans and Notes (continued)**

On November 14, 2011, the Authority entered into a Property Tax Revenue Anticipation Note Loan Agreement (the “2011 B Revenue Anticipation Notes”). Under the terms of the Loan Agreement, the Employees’ Retirement System of the Government will loan the Authority up to \$13,000,000. The purpose of the 2011 B Revenue Anticipation Notes is secured by Property Tax revenue up to and including tax year 2005 to provide a loan to the Government to finance (i) payments made by the Government to government employees who elected to retire under the Retirement Incentive Program, (ii) expenses incurred by the Office of the Lieutenant Governor related to processing, issuing and collecting property tax bills, and (iii) loan issuance costs. The financing is provided under the 2011 Economic Stability Act enacted in July 2011 by the Government. The 2011 B Revenue Anticipation Notes have a term of five years, with interest rate of 4.91% and a maturity date of December 15, 2016. After the five year term of the 2011 B Revenue Anticipation Notes, the loan will convert to a term loan not to exceed two years and secured by Gross Receipts tax revenue.

On September 25, 2009, the Authority entered into a Bond Anticipation Note Purchase Agreement with a local bank. Under the terms of the Note Purchase Agreement, the bank will purchase up to \$15,700,000 in federally taxable Bond Anticipation Notes (the “2009 A TIF Notes”) issued by the Authority. The purpose of the Series 2009 A TIF Notes is to provide a loan to the Government (the “Series 2009 A Tax Increment Revenue Loan Note”) to finance the development of a shopping complex on the island of St. Croix. The financing is provided under Tax Increment Financing legislation enacted in October 2008 by the Government. Both the 2009 A TIF Notes and the Series 2009 Tax Increment Revenue Loan Note have a term of three years, maturing on October 1, 2012 with interest of 300 points above the J.P. Morgan Chase Prime Rate or 6.25%, whichever is higher. Under the terms of the 2009 A TIF Notes, the Authority may issue Tax Increment Revenue Bonds to defease the debt prior to that date. The proceeds were used to: (i) fund a capitalized interest account, (ii) pay costs of issuance, and (iii) fund the first phase of the development of the shopping complex.

On September 24, 2012, the Authority authorized an extension of the maturity date on the Series 2009 A TIF Notes, from October 1, 2015 to October 1, 2017, which was then converted to the Series 2012 A term loan note (the “2012 A TIF Notes”). The Authority sold \$13,700,000 in 2012 A TIF Notes to the local bank, and loaned that amount to the Government.

Virgin Islands Public Finance Authority  
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Notes to the Financial Statements (continued)

September 30, 2015

**7. Loans and Notes (continued)**

On February 12, 2009, the Authority issued the Subordinate Lien Revenue Bond Anticipation Notes, Series 2009 A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of \$8,000,000 (the “2009 A 911 Notes”). The 2009 A 911 Notes accrued interest at a rate of 4.75% due at maturity on February 1, 2010. The proceeds of the 2009 A Notes were loaned to the Government under the same terms, for the purposes of (i) financing the purchase and installation of 911 communication equipment for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the 2009 A 911 Notes. On February 1, 2010, the Authority elected a conversion of the 2009 A 911 Notes to a term note with principal and interest payable semi-annually, with an interest rate of 5.40% and maturity date of August 1, 2015.

On June 1, 2008, the West Indian Company (“WICO”) refinanced its outstanding loans and obtained additional financing of \$2.3 million, increasing the facility to \$23,500,000 at an effective interest rate of 6.20% per annum. The loan will be repaid in 120 consecutive monthly installments of \$154,953 (representing principal and interest) and a final payment of the outstanding principal balance plus any unpaid interest in 2018. The loan may be prepaid, in whole or in part, at any time without penalty.

WICO has pledged all its leases and revenues to secure the loan. Pursuant to the provisions set forth by the Loan Agreement, WICO maintains restricted cash in a debt service reserve account controlled by the Authority, and a debt service coverage ratio account, controlled by WICO, for the payment of principal and interest equal to a one year debt service requirement. As of September 30, 2015, the Company has funded 100% of this amount, which is presented in the statement of net position as restricted cash in the amount of \$2,466,925.

On November 12, 2014, WICO finalized an interim financing agreement to procure a loan payable to Banco Popular de Puerto Rico. The agreement provides for Banco Popular de Puerto Rico to extend a loan to WICO in the amount of approximately of \$3,750,000 bearing interest at 6.75% per annum. The loan has an interest-only repayment period of twelve (12) months from issue date. Additionally, the payments are based on a 25-year amortization, with a final maturity in six (6) years. The interim financing provides additional funding to initiate Phase II WICO pier construction projects.

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**7. Loans and Notes (continued)**

Over the last three years the WICO's operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and also by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Ports Authority. This situation is compounded by a minimum contribution in lieu of taxes of \$700,000, regardless of the operating results. These situations have resulted in a deficit in working capital (current assets less current liabilities) of approximately \$1.3 million for the year ended September 30, 2015. Furthermore, these situations also caused a deficit in unrestricted net assets of approximately \$.5 million for the year ended September 30, 2015. During the year ended September 30, 2015, WICO complied with the debt service reserve requirement, which requires that it set aside sufficient cash for the following year's debt service requirements. As part of the loan agreements, no dividends may be declared and no additional equity interests may be granted during the term of the loans without the lenders approval.

**Pledged Funds**

The Government has pledged Property Tax Revenue to the timely payment of the principal and interest on the 2011 B Loan. Surplus property tax receipts will be deposited into the Special Real Property Tax Receipts Fund account in accordance with the Loan Agreement.

The Government has pledged Island Crossings Incremental Tax Revenue and proceeds of the anticipated Tax Increment Revenue Bond Anticipation Note to the timely payment of the principal and interest on the 2012 A Loan. Incremental Tax Revenue will be deposited into the Island Crossing Tax Increment Trust account in accordance with the Loan Agreement.

The Authority has pledged WICO revenues to the timely payment of principal and interest of the loan. Interest expense during the fiscal year ended September 30, 2015 was \$2.1 million.

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**7. Loans and Notes (continued)**

**Pledged Funds (continued)**

Future minimum payments of principal for the five years subsequent to September 30, 2015, and thereafter, are as follows:

Fiscal Year	2015 A Bond Anticipation Note	2014 E Revenue Loan Note	2014 B Revenue Loan Note	2013 A Revenue Loan Note	2011 B Revenue Anticipation Note	2012 TIF Bond Anticipation Note	WICO
2016	\$ 19,130,435	\$ 40,000,000	\$ 2,000,000	\$ 1,514,444	\$ 101,174	\$ 275,088	\$ 569,564
2017	20,869,565	-	2,000,000	923,333	5,715,007	295,212	616,292
2018	-	-	2,000,000	76,945	-	12,449,279	655,857
2019	-	-	2,000,000	-	-	-	697,965
2020	-	-	2,000,000	-	-	-	742,778
Thereafter	-	-	2,000,000	-	-	-	28,595,014
	<u>40,000,000</u>	<u>40,000,000</u>	<u>12,000,000</u>	<u>2,514,722</u>	<u>5,816,181</u>	<u>13,019,579</u>	<u>31,877,470</u>
Less current debt	19,130,435	40,000,000	2,000,000	1,514,444	101,174	275,088	569,564
Total	<u>\$ 20,869,565</u>	<u>\$ -</u>	<u>\$ 10,000,000</u>	<u>\$ 1,000,278</u>	<u>\$ 5,715,007</u>	<u>\$ 12,744,491</u>	<u>\$ 31,307,906</u>

**8. Federal Grants**

On January 4, 2010, the Authority was awarded a federal grant in the amount of \$1,294,854 from the United States Department of Commerce under the American Recovery and Reinvestment Act of 2009 (“ARRA”) for the development of a United States Virgin Islands State Broadband Initiative (“SBI”)/State Broadband Data and Development (“SBDD”) project for a broadband mapping and planning system. On September 28, 2010, the award was increased to \$3,009,506. The grant period was from January 1, 2010 through December 31, 2014. Effective June 6, 2014, the United States Department of Commerce’s National Telecommunications and Information Administration (“NTIA”) and its National Institute of Standards and Technology (NIST) provided a no-cost program extension for the SBI/SBDD grant award from December 31, 2014 to January 31, 2015. NTIA and NIST offered this extension to Grant Recipients whose agreements had not yet expired. The extension provides additional time through January 31, 2015 for project activities to be completed and for the Drawdown of grant funds to be made through April 30, 2015. For the year ended September 30, 2015, the Authority had \$ 1.3 million in reimbursable project expenses related to the project from the viNGN, the grant subrecipient.

Virgin Islands Public Finance Authority  
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Notes to the Financial Statements (continued)

September 30, 2015

**8. Federal Grants (continued)**

On August 17, 2010, the Authority was awarded a federal grant in the amount of \$58,888,469 from the United States Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the United States Virgin Islands Comprehensive Community Infrastructure project. On August 31, 2011, the Authority received communication from the United States Department of Commerce recommending the suspension of the grant, pending the completion of a Corrective Action Plan to address certain deficiencies observed in the operation and management of the grant. A Corrective Action Plan was submitted to the United States Department of Commerce on October 3, 2011, with supplemental information for the Corrective Action Plan submitted on October 10, 2011 and on October 14, 2011. On October 17, 2011, the Authority received approval of the Corrective Action Plan and lifting of the suspension. On March 29, 2013, the United States Department of Commerce's National Telecommunications and Information Administration ("NTIA") and its National Oceanic and Atmospheric Administration ("NOAA") approved a budget modification/rebudget which was subsequently modified with the approval of the reduction in the local match requirement from 33.29% to 20.00% and the related total program budget modification, effective August 2, 2013. On July 30, 2013, the United States Department of Commerce's National Telecommunications and Information Administration ("NTIA") and its National Oceanic and Atmospheric Administration (NOAA) approved a no-cost program extension for the implementation of the Authority's \$58,888,469 American Recovery and Reinvestment Act of 2009 (ARRA)-funded Comprehensive Community Infrastructure ("CCI") grant award from July 31, 2013 to December 31, 2013.

Information Administration ("NTIA") and its National Oceanic and Atmospheric Administration (NOAA) approved a no-cost program extension for the implementation of the Authority's \$58,888,469 American Recovery and Reinvestment Act of 2009 (ARRA)-funded Comprehensive Community Infrastructure ("CCI") grant award from July 31, 2013 to December 31, 2013. For the fiscal year ended September 30, 2015, the Authority received \$ 3.4 million in grant reimbursements transferred to viNGN, the grant subrecipient, less bank fees. For the year ended September 30, 2015, the Authority had \$2.1 million in reimbursable project expenses related to the project from the viNGN, the grant subrecipient.

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**8. Federal Grants (continued)**

On September 13, 2010, the Authority was awarded a federal grant in the amount of \$2,535,082 from the United States Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the United States Virgin Islands Sustainable Broadband Adoption Program. On August 19, 2013, the United States Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Institute of Standards and Technology (NIST) approved the extension of the grant award from August 31, 2013 to September 30, 2014, effective August 20, 2013. The extension included a budget modification for viNGN, INC. d/b/a Virgin Islands Next Generation Network, a wholly owned subsidiary and the sole subrecipient. For the fiscal year ended September 30, 2015, the Authority received \$787 thousand in grant reimbursements transferred to viNGN, the grant subrecipient, less bank fees. For the year ended September 30, 2015, the Authority had \$470 thousand in reimbursable project expenses related to the project from the viNGN, the grant subrecipient.

On September 13, 2010, the Authority was awarded a federal grant in the amount of \$3,021,867 from the United States Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the United States Virgin Islands Public Computer Centers project. On August 19, 2013, the United States Department of Commerce's National Telecommunications and Information Administration ("NTIA") and its National Institute of Standards and Technology ("NIST") approved the extension of the grant award from August 31, 2013 to September 30, 2014, effective August 20, 2013. The extension included a budget modification for viNGN, INC. d/b/a Virgin Islands Next Generation Network, a wholly owned subsidiary and the sole subrecipient. For the fiscal year ended September 30, 2015, the Authority received \$ 1.5 in grant reimbursements transferred to viNGN, the grant subrecipient, less bank fees. For the year ended September 30, 2015, the Authority had \$1.2 million in reimbursable project expenses related to the project from the viNGN, the grant subrecipient.

On September 30, 2011, the Virgin Islands Next Generation Network entered into a Memorandum of Agreement ("MoA") with the Virgin Islands Water and Power Authority ("WAPA"), an autonomous instrumentality of the Government. The term of the MoA is twenty-five (25) years, following execution and upon expiration of the initial twenty-five (25) years will be automatically renewed for two additional consecutive twenty-five (25) year terms unless either party provides a written notice of non-renewal to the other party not less than twelve (12) months but no sooner than twenty-four (24) months prior to the expiration of the original term of any additional term.



Virgin Islands Public Finance Authority  
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Notes to the Financial Statements (continued)

September 30, 2015

**8. Federal Grants (continued)**

As part of the Broadband Expansion Project, WAPA provided in-kind contributions intended to satisfy a portion of the non-federal cost share requirement of the Comprehensive Community Infrastructure “CCI” grant. WAPA’s in-kind contribution share consists of the use of certain WAPA facilities, equipment and communications infrastructure.

In January 2015, NTIA, the U.S. Office of Management and Budget, and NOAA approved a no-cost close-out extension of the Office of Economic Opportunity’s CCI, PCC, and SBA grants through March 31, 2015. For the CCI grant, this provided additional time through March 31, 2015 to complete all network connections and network testing activities. The extension also provided additional time to complete the project by allowing reimbursement requests through March 31, 2015.

**9. Commitments**

**Future Minimum Lease Payments**

The Authority entered into a twenty-year lease for a property in St. Croix from February 15, 1996 through February 15, 2016 and which was subsequently renewed for an additional twenty years, through February 15, 2036. In July 2015, the Authority entered into a five year lease agreement to rent office space on the island of St. Croix at a monthly rent of \$3,164 with annual increases of no more than 3%.

WICO leases several warehouse and land to commercial businesses for the generation of income. The cost and carrying amount of leased property as of September 30, 2015 were approximately \$4.6 million and \$2.7 million, respectively.

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**9. Commitments (continued)**

**Future Minimum Lease Payments (continued)**

In 2012, the viNGN entered into a six-year lease for offices owned by WICO, for the period of January 1, 2012 - December 31, 2017 at a monthly rate of \$12,000. In 2015, viNGN entered into a five-year warehouse lease, from September 1, 2015 through August 31, 2020, at a rate of \$7,500 monthly. During the same year, viNGN entered into a second warehouse lease for three years, from November 1, 2015 through October 31, 2018 for \$5,192 per month.

Future minimum lease payments for the remaining fiscal years are as follows:

	<b>PFA</b>	<b>WICO</b>	<b>viNGN</b>
2016	\$ 85,820	\$ 852,143	\$ 291,112
2017	108,443	806,603	188,304
2018	109,596	706,353	152,304
2019	110,784	653,894	—
2020	112,007	628,750	—
2021-2025	374,928	—	—
2026-2030	350,000	—	—
Thereafter	306,250	—	—
Total future minimum payments	<u>\$ 1,557,828</u>	<u>\$ 3,647,743</u>	<u>\$ 631,720</u>

**10. Contingencies**

The Authority has loans receivable amounting to approximately \$2.04 billion from the Government (see Note 4). The principal and interest to be paid by the Government to the Authority on the loans receivable is mainly derived from excise taxes on exported rum received by the Government and gross receipts taxes, as more fully described in Note 6 and Note 7 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the Series 2015 A, Series 2014 D, Series 2014 C, Series B, Series 2014 A, Series 2013 B, Series 2013 A, Series 2012 C, Series 2012 A and B, Series 2012 A, Series 2010 A and B, Series 2009 A (Cruzan), Series 2009 A1, A2, B and C, Series 2009 A (Diageo), Series 2006 A, Series 2004 A, and Series 2003 A Bonds, and the Series 2014 B, Series 2013 B, Series 2013 A, Series 2012 A TIF, Series 2011 B, Series 2011 A, and Series 2009 911 A Notes.

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**10. Contingencies (continued)**

The Government maintains a program, established pursuant to law, in which it provides a subsidy to stabilize the cost of molasses to the Virgin Islands rum producers to ensure the competitive pricing of rum produced in the Virgin Islands. The effect of the molasses payments is to maintain the competitive position of the Virgin Islands rum producers relative to the rum producers in other countries in which local molasses supplies are readily available. The molasses subsidy is administered by the Commissioner of Finance through the establishment of a legislatively mandated Molasses Subsidy Fund. In the event of a deficiency in the Molasses Subsidy Fund, the Commissioner of Finance could seek legislative appropriation of additional funds, as required, from the Legislature of the Virgin Islands. The Legislature, however, is not obligated to appropriate such amounts.

Notwithstanding the Government's past financial difficulties, the Legislature of the United States Virgin Islands has not yet waived on or reduced the Molasses subsidy. If such an event should occur, the rum producers could experience a decrease in their operations, and therefore result in a reduction of the federal excise taxes returned to the Government by the United States Government. The collectability of the loans receivable from the Government is highly dependent on the ability of the Government in collecting these taxes.

On May 1, 2013, WICO and a former tenant (Former Tenant) executed an agreement (Settlement Agreement) in order to resolve all claims that have been asserted or could be asserted by WICO against the Former Tenant or by the Former Tenant against the WICO related to the environmental conditions on, under, or migrating from WICO's property. The Settlement Agreement required an initial payment to WICO in the amount of \$2.7 million, plus an additional \$250 thousand in connection with an execution of an Environmental Covenant. Furthermore, the Settlement Agreement provided for a final payment to WICO in the amount of \$250 thousand contingent to WICO's completion of certain activities that were fulfilled in March, 2014.

On August 29, 2013, Fitch Ratings downgraded the Authority's debt rating from BBB to BBB- as a result of the downward recalculation of pledged Matching Funds Revenues available from Captain Morgan's rum export.

On July 11, 2014, the Virgin Islands Public Finance Authority was notified by the U.S. Virgin Islands Office of Inspector General and the U.S. Department of Interior's Office of Inspector General that they would be initiating a joint audit of the Virgin Islands Public Finance Authority, beginning on July 21, 2014. The audit is a routine audit of the Authority as a blended component unit of the Government, covering the fiscal years from 2010 through 2014.

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**10. Contingencies (continued)**

On December 1, 2014, the Authority established a standby letter of credit with First Bank in the amount of \$650,000 in connection with a guarantee provided to Delta Airlines by the Department of Tourism to provide airline service to the island of St. Croix. The letter of credit will expire on November 26, 2016.

On September 10, 2015, the Authority received the fiscal year 2016 advance rum excise tax payment (matching funds) from the Department of Interior. The advance payment was computed on a base rate of \$13.25 per proof gallon of rum. The \$13.25 per proof gallon, increased rate from the \$10.50 rate, was expected to expire, but was extended by Congress on December 18, 2015 for an additional two years, retroactive to January 1, 2015.

The Authority is party to a Memorandum of Agreement with the Virgin Islands Department of Education to administer \$5 million in funds appropriated by the Virgin Islands Legislature to be expended as follows: (i) the development of engineering specifications and plans for the Virgin Islands public schools and (ii) repairs, renovations and upgrades at specified Virgin Islands public schools. The agreement was executed on September 28, 2007. As of September 30, 2015, the Authority had made outlays from the funds, net of interest earnings of \$4.9 million.

During the normal course of business, the Authority is a defendant in various lawsuits. In the opinion of management and legal counsel, the outcome of these cases and resulting liability, if any, is either adequately covered by insurance or should not materially affect the Authority's financial position.

**11. Concentration of Risk**

All of the matching fund revenues are derived from federal excise taxation of the sale of rum produced in the Virgin Islands. For every proof gallon of rum produced in the Virgin Islands and exported to the U.S. mainland, \$10.50 is returned to the territory. In 1999, and as extended in subsequent years, the excise tax rebate has been temporarily increased to \$13.25 per proof gallon. Rum production and exportation is by two producers (Cruzan & Diageo).

Virgin Islands Public Finance Authority  
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Notes to the Financial Statements (continued)

September 30, 2015

**11. Concentration of Risk (continued)**

Customers representing more than 10% of total revenues for the West Indian Company during the year ended September 30, 2015 are as follows:

Carnival Cruise Line	40%
Royal Caribbean Cruise Line	33%
Norwegian Cruise Line	19%

**12. Pension Plan**

Effective October 1, 2014, the Authority implemented GASBS 68, *Accounting and Financial Reporting for Pensions*, as amended by Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Following is a description of the pension plan and the accounting for pension expense, liabilities and deferred outflows of resources in accordance with GASBS 68.

**Plan Description**

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

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

There are two tiers within the plan:

Tier I: Employees hired prior to September 30, 2005

Tier II: Employees hired on or after October 1, 2005

Virgin Islands Public Finance Authority  
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Notes to the Financial Statements (continued)

September 30, 2015

**12. Pension Plan (continued)**

**Plan Description (continued)**

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

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

**Contribution Information**

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required employer contribution for Tier I and Tier II members through December 31, 2014 was 17.5% of the member's annual salary. Effective January 1, 2015, the Government's required contribution was increased to 20.5% of the Tier I and Tier II member's annual salary. Contributions to the pension plan from the Authority were \$119,009 for the year ended September 30, 2015.

Effective January 1, 2015, Tier I member contributions increased by 1% to 9% of annual salary for regular employees. Member contributions will increase an additional 1% on January 1, 2016 and January 1, 2017.

Effective February 5, 2015, Tier II member contributions increased by 1% to 9.5% of annual salary for regular employees, and will increase an additional 1% on January 1, 2016 and January 1, 2017.

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

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**12. Pension Plan (continued)**

**Additional Information Regarding the Pension Plan**

To obtain additional information regarding the pension plan, requests for information may be made to: <http://www.usvigiers.com/benefits/actuarialreport.aspx>.

**Pension Plan Expense**

The Public Finance Authority’s proportionate share of pension expense is computed based on the percentage of actual employer contributions determined in accordance with Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). Pension expense, reported for the year ended September 30, 2015, amounted to \$181,386:

**Pension Liability**

The net pension liability of the Authority reported as of September 30, 2015, was as follows:

<b>Total Net Pension Liability of the Plan</b>	<b>Public Finance Authority Proportionate Share Percentage</b>	<b>Public Finance Authority Pension Liability</b>
\$3,086,018,012	0.1065%	\$3,286,609

Virgin Islands Public Finance Authority  
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Notes to the Financial Statements (continued)

September 30, 2015

**12. Pension Plan (continued)**

**Pension Liability (continued)**

The net pension liability at September 30, 2015 was measured as of September 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportional share of the net pension liability was \$3.3 million or 0.1065% of the system-wide liability and 668% of the Authority's covered-employee payroll, amounting to \$491,000. At September 30, 2015, the Authority's proportion decreased 0.0082% from its proportion measured as of September 30, 2014.

**Deferred Outflows and Inflows of Resources**

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

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

<i>Public Finance Authority</i>	<b>Deferred Outflows</b>
Difference between expected and actual experience	\$ 30,602
Net difference between projected and actual investment earnings on pension plan investments	23,523
Changes in assumptions	205,781
Changes in proportion and differences between contributions and proportional share of contributions	(44,935)
Contributions subsequent to measurement date	119,009
Total deferred outflows and inflows of resources	\$ 333,980

Amounts of \$119,009 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2016.



**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**12. Pension Plan (continued)**

**Actuarial Assumptions**

Actuarial Assumptions used in the computation of the total pension liability 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 Finance Authority**  
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Notes to the Financial Statements (continued)

September 30, 2015

**12. Pension Plan (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>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Inflows</b>
Domestic Equity	45%	6.99%
International Equity	10%	7.49%
Fixed Income	40%	2.59%
Alternatives	5%	4.29%
Total Asset Class	<u>100%</u>	

**Discount Rate**

The discount rate used to measure total pension liability was 4.42% as of September 30, 2014. 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% that 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%.

**Virgin Islands Public Finance Authority**  
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**Notes to the Financial Statements (continued)**

September 30, 2015

**12. Pension Plan (continued)**

**Sensitivity to Changes in the Discount Rate**

Following is a schedule of net pension liability for the Authority 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:

<b>Proportionate Share for Public Finance Authority's</b>	<b>1% Decrease (3.42%)</b>	<b>Current Discount (4.42%)</b>	<b>1% Increase (5.42%)</b>
Net pension liability	\$ 3,816,115	\$ 3,286,609	\$2,838,904

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

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Notes to the Financial Statements (continued)**

September 30, 2015

**13. Due to Government of the United States Virgin Islands**

Due to Government of the United States Virgin Islands represents funds held by the Authority on behalf of the Government for payment of construction projects and debt service payments. Due to Government of the United States Virgin Islands movement for the fiscal year ended September 30, 2015, follows:

	<b>Debt Service Fund</b>	<b>Construction Fund</b>
	<hr/>	<hr/>
<b>Beginning balance</b>	\$ 267,756,649	\$ 172,181,526
Funds received for debt service	66,173,583	220,346,372
Debt service	(177,200,015)	–
Debt service - refunded amounts	(292,125,000)	–
Investment income (loss)	2,354,904	67,350
Issuance cost	(5,310,002)	(64,799)
Proceeds from the issuance of bonds	238,406,926	71,310,539
Bank fees	(362,613)	(14,700)
Other income (loss)	(3)	(121)
Capital outlays (including reimbursements)	(590,301)	(13,148,768)
General and administrative expenses	–	(3,500,000)
Transfers to escrow for defeased bonds	(2,416,965)	(2,952,489)
Interfund transfers	167,680,402	(165,033,235)
Transfer of funds to the Government of the U.S. Virgin Islands	–	(58,801,097)
Letter of credit held on behalf of the Government of the U.S. Virgin Islands	–	(650,000)
Loan to viNGN	2,500,000	–
Transfers (to)/from rum producers	(57,705,688)	–
<b>Ending balance</b>	<hr/> <b>\$ 209,161,877</b>	<hr/> <b>\$ 219,740,578</b> <hr/>

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

**14. Restatements to Beginning Net Position/Deficit**

Beginning unrestricted net position was restated as follows (expressed in thousands):

Net position, October 1, 2014, as previously reported	\$95,826,544
Adjustment required for GASBS 68 and GASBS 71 adoption	(3,053,236)
Net position, October 1, 2014, as restated	<u>\$92,773,308</u>

The adjustments to the beginning position was to account for the effect of the adoption of GASB Statement No. 68 (“GASBS 68”), *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 (“GASBS 71”), *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The primary objective of this Statement is to improve accounting and financial reporting for pensions.

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Notes to the Financial Statements (continued)**

September 30, 2015

**15. Blended Component Unit Reporting**

The component units have the same fiscal year end as the Authority. Condensed financial statements for the major component units are presented below. To obtain audited financial statements for WICO or viNGN, please contact the Virgin Islands Public Finance Authority at 32 & 33 Kongens Gade, Government Hill, St. Thomas, U.S. Virgin Islands 00802.

<i>(In thousands)</i>	<b>WICO</b>	<b>viNGN</b>	<b>KAMI</b>	<b>Total</b>
<b>Condensed information from Statement of Net Position</b>				
Assets:				
Current assets	\$ 8,804	\$ 5,596	\$ 1,560	\$ 15,960
Capital assets, net of depreciation	44,099	79,859	4,983	128,941
Total assets	<u>\$ 52,903</u>	<u>\$ 85,455</u>	<u>\$ 6,543</u>	<u>\$ 144,901</u>
Liabilities:				
Current liabilities	\$ 7,477	\$ 1,716	\$ 702	\$ 9,895
Long-term portion of bonds outstanding	31,308	-	-	31,308
Other liabilities	-	34,223	17	34,240
Total liabilities	<u>\$ 38,785</u>	<u>\$ 35,939</u>	<u>\$ 719</u>	<u>\$ 75,443</u>
Net position:				
Net investment in capital assets	\$ 12,221	\$ 36,692	\$ 4,983	\$ 53,896
Restricted	2,467	-	-	2,467
Unrestricted	(570)	9,824	841	10,095
Total net position	<u>\$ 14,118</u>	<u>\$ 46,516</u>	<u>\$ 5,824</u>	<u>\$ 66,458</u>
<b>Condensed information from Statement of Revenues, Expenses and Changes in Net Position</b>				
Operating revenues	\$ 9,502	\$ 2,565	\$ 581	\$ 12,648
Operating expenses	(6,978)	(5,895)	(482)	(13,355)
Depreciation and amortization	(2,822)	(3,915)	(481)	(7,218)
Operating loss	(298)	(7,245)	(382)	(7,925)
Nonoperating (expenses) income and other changes				
in net position	(1,529)	5,052	1	3,524
Change in net position	(1,827)	(2,193)	(381)	(4,401)
Beginning net position	15,945	51,709	6,205	73,859
Ending net position	<u>\$ 14,118</u>	<u>\$ 49,516</u>	<u>\$ 5,824</u>	<u>\$ 69,458</u>

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to the Financial Statements (continued)

September 30, 2015

**15. Blended Component Unit Reporting (continued)**

<i>(In thousands)</i>	<b>WICO</b>	<b>viNGN</b>	<b>KAMI</b>
<b>Condensed Statement of Cash Flows</b>			
Net cash provided by (used in):			
Operating activities	\$ 3,847	\$ (6,813)	\$ 182
Noncapital financing activities	(150)	2,247	–
Capital and related financing activities	(1,297)	3,906	–
Investing activities	6	12	–
	<u>2,406</u>	<u>(648)</u>	<u>182</u>
Beginning cash and cash equivalents	4,011	5,300	1,322
Ending cash and cash equivalents	<u>\$ 6,417</u>	<u>\$ 4,652</u>	<u>\$ 1,504</u>

**16. Segment Information**

The financial statements of the PFA contain one segment, The West Indian Company (“WICO”) that has debt outstanding, with a revenue stream pledged in support of the debt. In addition, the activities are required to be accounted for separately. WICO is a wholly owned port facility including a cruise ship pier, shopping mall and rental complex on the island of St. Thomas. WICO’s operating revenues consist of agency fees charged to cruise lines and rental income.

Over the last three years WICO’s operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and also by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Ports Authority. This situation is compounded by a minimum contribution in lieu of taxes of \$700,000, regardless of the operating results. For the year ended September 30, 2015 working capital increased by \$1.5 million, mainly due to the financing obtained to begin phase 2 of the WICO Dock construction project, which was finalized in November 2014. The Company obtained a commercial term loan in the amount of \$3.75 million, to be utilized for purchase and installation of 150-ton bollards, and associated CZM (Costal Zone Management) Permits. During the years ended September 30, 2015 and 2014, the Company complied with the debt service coverage and debt service reserve requirements, which requires that the Company meet certain debt service coverage targets and maintain sufficient cash for one year’s debt service requirements. As part of the loan agreements, no dividends may be declared and no additional equity interests may be granted during the term of the loans without the lenders approval.

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Notes to the Financial Statements (continued)**

September 30, 2015

**17. Subsequent Events**

On December 15, 2015, the Authority issued the Series 2015 Grant Anticipation Revenue Bonds, the proceeds of which amounted to \$89,880,000. These bonds are secured by a lien on a security interest in, the Trust Estate, which includes, all rights and interests in (i) the Federal Highway Grant Revenues, (ii) subject to the limitations set forth in the Indenture, the Transportation Trust Fund and the Pledged Transportation Trust Fund Revenues, (iii) the amounts on deposit in certain funds and accounts created under the Indenture, including Debt Service Reserve Fund and (iv) the Loan Agreement and the Loan Note. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2015 Grant Anticipation Revenue Bonds were issued to (i) finance costs of Approved Projects, (ii) establish debt service reserves and (iii) pay the costs of issuance related to the Series 2015 Grant Anticipation Revenue Bonds. The Series 2015 Grant Anticipation Revenue Bonds mature from 2016 to 2033 at an interest rate of 3.00% to 5.00%.

On December 18, 2015, the Authority withdrew an additional \$20,000,000 from the Subordinate Lien Revenue Anticipation Notes Series 2014 E (Virgin Islands Gross Receipts Taxes Loan Note), bringing the total loan to \$60,000,000. On January 8, 2016, the Government repaid \$50,000,000.

On March 2, 2016, the West Indian Company Ltd. Was approved for a non-revolving line of credit and conversion to commercial term loan, in the amount of approximately \$11,600,000 from Banco Popular. The loan proceeds will be utilized to assist in completion of the WICO dock construction and improvements for WICO's dock refurbishment and development.

On April 14, 2016, the Authority and the primary Government entered into a settlement agreement with three professional firms regarding an arbitrage payment of \$13,635,000 made to the Internal Revenue Service in a prior year for the 2006 Series A Bonds. Under the terms of the agreement, the Authority received \$8,100,000 from the professional firms to settle the litigation.



# Required Supplementary Information

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Schedule of Authority's Share of the Net Pension Liability

September 30, 2015

	2015*	2014*
Authority's proportion of the NPL	<b>0.1065%</b>	0.1147%
Authority's proportionate share of the NPL	<b>\$3,286,609</b>	\$3,142,731
Authority's covered-employee payroll	<b>\$ 467,034</b>	\$ 492,001
Authority's proportionate share of the NPL as a percentage of its covered-employee payroll	<b>668.0%</b>	640.19%
Plan fiduciary net position as percentage of the total pension liability	<b>27%</b>	31%

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

**Virgin Islands Public Finance Authority**  
(A Blended Component of the Government of the United States Virgin Islands)

**Schedule of Authority's Contributions**

September 30, 2015

	<b>2015*</b>	<b>2014*</b>	<b>2013</b>
Contractually required contributions	\$119,009	\$89,496	106,255
Contributions in relation to the contractually required contributions	119,009	89,496	106,255
Contribution deficiency (excess)	—		
Covered-employee payroll	467,034	492,001	490,093
Contributions as a percentage of covered-employee payroll	25.48%	18.19%	21.68%

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

Virgin Islands Public Finance Authority  
(A Blended Component of the Government of the United States Virgin Islands)

Notes to Required Supplementary Information

September 30, 2015

Valuation Date: October 1, 2014

Measurement Date: September 30, 2014

Actuarially determined contribution rates are calculated as of September 30, 2014, 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 using the level percent of salary funding method.
Amortization method	Level percentage of payroll.
Remaining amortization period	15 years
Asset valuation method	5-year smoothed market
Inflation	2.85%
Salary increases	4% including inflation
Investment rate of return	4.42%, net of pension plan investment expense, including inflation
Retirement age	65 for inactive vested participants
Mortality Rates	RP-2000 Combined Healthy Mortality Table set forward 2 years.

# Other Report



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

The Board of Directors of  
The USVI Public Finance Authority

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Virgin Islands Public Finance Authority (the Authority) as of and for the year ended September 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 20, 2016.

**Internal Control Over Financial Reporting**

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

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

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



### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Ernst & Young LLP*

June 20, 2016

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