Government of the United States Virgin Islands

Management's Discussion
and Analysis, Financial Statements
(with Independent Auditor's Report Thereon)
and Required Supplementary Information
Year Ended September 30, 2016

The report accompanying these financial statements was issued by BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of BDO International Limited, a UK company limited by guarantee.

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Independent Auditor's Report

To the Honorable Governor
of the Government of the United States Virgin Islands

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following funds and/or component units:

- The Virgin Islands Housing Authority (VIHA), Virgin Islands Economic Development Authority (VIEDA), Virgin Islands Waste Management Authority (VIWMA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Governor Juan F. Luis Hospital and Medical Center), and the Virgin Islands Housing Finance Authority (VIHFA), discretely-presented component units, which collectively represent 32.4%, (35.3%), and 39.7%, respectively, of the assets, net position (deficit), and revenues of the Aggregate Discretely-Presented Component Units.

- The Virgin Islands Lottery (V.I. Lottery), a nonmajor enterprise fund, which represents 0.9% and 6.1%, respectively, of the assets and revenues/additions of the Aggregate Remaining Fund Information, and 8.6% and 26.8%, respectively, of the assets and revenues of the Business-Type Activities.

- The Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 86.7%, 72.2%, and 63.9%, respectively, of the assets, net position/fund balance, and revenues of the Aggregate Remaining Fund Information.

- The Virgin Islands Public Finance Authority (PFA), a blended component unit which represents 21.4% and 18.1%, respectively of the assets and revenues of the Governmental Activities; 86.6% and 14.8%, respectively of the assets and revenues of the Business-Type Activities; 100% of the assets, net position/fund balance, and revenues of the West Indian Company; 100% of the assets, net position/fund balance, and revenues of the Virgin Islands Next Generation Network (viNGN); 87.9%, 81.0%, and 43.2% respectively, of the assets, net position/fund balance, and revenues of the Public Finance Authority Debt Service Fund; 100% of the assets, net position/fund balance, and revenues of the Public Finance Authority Capital Projects Fund; and 1.7%, 0.4%, and 0.7%, respectively, of the assets, net position/fund balance, and revenues of the Aggregate Remaining Fund Information.

Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the activities, funds, and component units indicated above, are based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Virgin Islands Government Hospital and Health Facilities Corporation (Governor Juan F. Luis Hospital and Medical Center) were not audited in accordance with *Government Auditing Standards*. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Governmental Activities, Business-Type Activities, General Fund, Federal Grants Fund, Unemployment Insurance-Enterprise Fund, and the Aggregate Remaining Fund Information.

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.

Except for the matters described in the Basis for Disclaimer of Opinion on the Governmental Activities, Business-Type Activities, General Fund, Federal Grants Fund, Unemployment Insurance-Enterprise Fund, and the Aggregate Remaining Fund Information paragraphs, we believe that the audit evidence we and other auditors have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Opinion
Governmental Activities	Disclaimer
Business-Type Activities	Disclaimer
General Fund	Disclaimer
Debt Service Fund	Qualified
Capital Projects Fund	Unmodified
Federal Grants Fund	Disclaimer
West Indian Company-Enterprise Fund	Unmodified
Unemployment Insurance-Enterprise Fund	Disclaimer
viNGN-Enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Disclaimer
Aggregate Discretely-Presented Component Units	Qualified

Basis for Disclaimer of Opinion on Governmental Activities, Business-Type Activities, General Fund, Federal Grants Fund, Unemployment Insurance-Enterprise Fund, and on Aggregate Remaining Fund Information

The Government did not maintain the requisite documentation to support its accrued retroactive liability, other post-employment liability and disclosures in Note 14 to the financial statements, and net capital assets. Additionally, the Government did not maintain the requisite documentation to support its income tax receivables, tax refunds payables, tax revenues, payment in lieu of taxes, charges for services, and interest and other in the amounts of $159.1 million, $52.8 million, $618.0 million, $283.8 million, $73.8 million, and $78.8 million, respectively as of and for the year ended September 30, 2016. As such, we were unable to determine whether adjustments to these balances were required in the Governmental Activities, Business-Type Activities, General Fund, and Aggregate Remaining Fund Information.

The Government did not maintain the requisite documentation to support its determination as to the sufficiency of the design and operation of key controls surrounding the environment in which Medicaid claims are processed. As such, we were unable to determine whether adjustments were required in the General Fund and in the Governmental Activities.

The Government did not maintain the requisite documentation to support its due to/from federal government and federal grants and contributions revenue in the amount of $42.9 million and $246.7 million, respectively as of and for the year ended September 30, 2016. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances were required in the Federal Grants Fund and in the Governmental Activities.

The Government's records were not available or contained incomplete information with respect to the Unemployment Insurance-Enterprise Fund. As such, the records do not permit, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the Unemployment Insurance-Enterprise Fund and Business-Type Activities as of and for the year ended September 30, 2016, may have been affected by this condition.

The financial statements of the Tobacco Settlement Financing Corporation (TSFC), have not been audited, and we were not engaged to audit TSFC's financial statements as part of our audit of the Government's basic financial statements. TSFC's financial activities are included in the Government's basic financial statements as part of the Aggregate Remaining Fund Information and Governmental Activities and represents 1.3% and 0.7% of the assets, respectively and 0.7% and 0.1% of the revenues, respectively.

The report of other auditors on the 2016 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because GERS maintained investments in a limited partnership valued at $21.1 million whose fair value has been estimated in the absence of a readily determinable fair value. GERS' estimate was based on information provided by the general partner of the limited partnership. The effect on the Aggregate Remaining Fund Information, as a result of GERS' inability to document its procedures for determining fair value of the investment was not determinable.

The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the Aggregate Remaining Fund Information and Business-Type Activities as of and for the year ended September 30, 2016, may have been affected by this condition.

Disclaimer of Opinion
Because of the significance of the matters discussed in the Basis for Disclaimer Opinion paragraphs above, we and other auditors have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Governmental Activities, Business-Type Activities, General Fund, Federal Grants Fund, the Unemployment Insurance-Enterprise Fund, and on the Aggregate Remaining Fund Information of the Government of the United States Virgin Islands. Accordingly, we do not express an opinion on these financial statements.

Basis for Qualified Opinion on Debt Service Fund
The Government did not maintain the requisite documentation to support its tax receivables, unavailable revenues, and tax revenues, in the amounts of $48.9 million, $39.1 million, and $157.7 million, respectively, as of and for the year ended September 30, 2016. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances were required in the Debt Service Fund.

Basis for Qualified Opinion on Aggregate Discretely-Presented Component Units
The reports of other auditors on the 2016 financial statements of VIWMA, a discretely-presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $92.4 million, were fairly stated. The report of other auditors on the 2016 financial statements of MBA, a discretely presented component unit, was also qualified because MBA did not report a net pension liability, pension expense as actuarially determined, and related deferred inflows and outflows of resources, if any, in accordance with accounting principles generally accepted in the United States of America.

The financial statements of the University of the Virgin Islands (UVI) and the University of the Virgin Islands Research and Technology Park Corporation (RTPark), have not been audited, and we were not engaged to audit UVI's and RTPark's financial statements as part of our audit of the Government's basic financial statements. UVI's and RTPark's financial activities are included in the Government's basic financial statements as discretely-presented component units and represent a combined 10.8% and 12.2% of the assets and revenues, respectively, of the Aggregate Discretely-Presented Component Units.

Qualified Opinion
In our opinion, based on our audit and the reports of other auditors, except for the possible effects of the matters described in the Basis for Qualified Opinion paragraphs above, the financial statements referred to above present fairly, in all material respects, the financial position of the Debt Service Fund and the Aggregate Discretely-Presented Component Units of the Government of the United States Virgin Islands as of September 30, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Capital Projects Fund, the West Indian Company-Enterprise Fund, and the viNGN-Enterprise Fund of the Government of the United States Virgin Islands as of September 30, 2016, and the respective changes in financial position and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters
As discussed in Note 15 to the financial statements, the Government reported an unrestricted net deficit. Management's plans regarding those matters are also described in Note 15. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion, based on our audit and the reports of other auditors, is not modified with respect to this matter.

Also as discussed in Notes 1 and 4, in 2016, the Government adopted Governmental Accounting Standards Board Statement (GASB) No. 72, *Fair Value Measurement and Application*. Additionally, as discussed in Note 16, certain adjustments were applied to restate beginning net position and fund balance of the aggregate discretely-presented component units. Our opinion, based on our audit and the reports of other auditors, is not modified with respect to these matters.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress, net pension liability, contributions, and revenue and expenditures – budget and actual budgetary basis – General Fund on pages 10 through 20 and 121 through 126, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has not included the other post-employment benefits actuarial information for 2016 in the schedule of funding progress and the budgetary comparison information for the Federal Grants Fund which accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017, on our consideration of the Government'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 Government's internal control over financial reporting and compliance.

BDO USA, LLP

June 27, 2017

Management's
Discussion and Analysis

Introduction

The following management's discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2016 and 2015.

Government-wide Financial Statements

The government-wide financial statements are designed to present an overall picture of the financial position of the Government. These statements consist of the statement of net position and the statement of activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that current year's revenues and expenses are included regardless of when cash is received or paid, producing a view of financial position and changes in financial position similar to that presented by most private-sector companies.

The statement of net position combines and consolidates the Government's current financial resources with capital assets and long-term obligations.

Both of the above-mentioned financial statements have separate sections for three different types of the Government programs or activities. These three types of activities are as follows:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with the primary government fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the: (i) the West Indian Company (WICO), (ii) the unemployment insurance program, and (iii) viNGN, Inc. dba Virgin Islands Next Generation Network (viNGN). These programs operate with minimal assistance from the governmental activities of the Government.

Discretely Presented Component Units – These are operations for which the Government has financial accountability even though they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The Government's discretely presented component units are presented in two categories, major and non-major. This separation is determined by the relative size of the entities' assets, liabilities, revenue, and expenses in relation to the total of all component units.

Fund Financial Statements

Fund financial statements focus on the most significant (or major) funds of the Government. A fund is a separate accounting entity with a self-balancing set of accounts. The Government uses funds to keep track of sources of funding and spending related to specific activities. The Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

A major fund is a fund whose revenues, expenditures or expenses, assets, or liabilities (excluding extraordinary items) are at least 10% of the corresponding totals for all governmental or enterprise funds and at least 5% of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always considered a major fund. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the Government believes is particularly important to the financial statements may be reported as a major fund.

All of the funds of the Government are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental funds statements provide a detailed short-term view of the general governmental operations and the basic services provided. The reconciliation following the fund financial statements explains the differences between the governmental activities, reported in the government-wide financial statements and the governmental funds' financial statements. The General Fund, the PFA debt service fund, the PFA capital projects fund and the Federal grants fund are reported as major governmental funds.

The General Fund is the Government's primary operating fund. It accounts for all financial resources of the Government, except those required to be accounted for in another fund.

The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by the PFA on behalf of the Government.

The PFA capital projects fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

The Federal grants fund accounts for proceeds and federal payments that are legally restricted for expenditures for federally specified purposes.

The governmental fund activities are reported in a separate balance sheet and statement of revenues, expenditures, and changes in fund balances. Additionally, the Government presents a reconciliation of the statement of revenues, expenditures, and change in fund balances, to the statement of activities.

Proprietary Funds

Services provided to outside (nongovernmental) customers are reported in enterprise funds. Enterprise funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. These are the same business-type activities reported in the government-wide financial statements.

The West Indian Company (WICO) fund, the Unemployment Insurance Fund, and viNGN are major proprietary funds.

The WICO fund accounts for the activities of WICO, which owns a port facility including a cruise ship pier, and manages a shopping mall complex on the island of St. Thomas.

The Unemployment Insurance Fund is a federally mandated program to manage unemployment insurance.

The viNGN fund accounts for the activities of viNGN, which designs, develops and manages a middle mile wholesale fiber optic network in order to make available reliable high speed internet connections to retail internet service providers.

The proprietary fund activities are reported in a separate statement of net position, statement of revenues, expenditures, and changes in net position and statement of cash flows.

Fiduciary Funds

The fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position.

Financial Analysis of the Government as a Whole

The Government faces the challenge of maintaining fiscal sustainability while also promoting economic growth. The Government has initiated outreach programs to promote environmentally safe industries and to attract investors. To improve cash flow, the Government has implemented a five-year financial plan of revenue initiatives and cost initiatives. Revenue initiatives include increases in locally assessed taxes, enforcement of tax compliance, and promotion of the Government's economic development program. Cost initiatives include enacted expenditure reduction initiatives and restructuring of health and property insurance commitments.

During the fiscal year, the Government settled with Hess Oil Virgin Islands Corporation (Hess Oil) regarding certain disputed tax amounts from prior years. As part of the settlement, Hess Oil transferred to the Government 330 acres of land near the oil terminal, 121 housing units at the oil terminal, a vocational school, laundromat, community center, and other improvements. These capital assets have been appraised at $61.0 million.

On December 1, 2015, the Government entered into a twenty-five (25) year operating agreement with Limetree Bay Terminals, LLC (Limetree), the new operator of the Hess Oil terminal. To enter into the operating agreement, Limetree made an upfront payment of $220.0 million to the Government, agreed to invest $125.0 million in the facility within two years, and to provide $15.0 million in the form of electric supply on the island of St. Croix. As part of the operating agreement, Limetree received tax exemptions and committed to quarterly payments to the Government of 10% of terminal income, and 17.5% of refinery income (if the refinery reopens) of not less than $4.0 million the first year, $5.0 million the second year, $6.0 million the third year, and $7.0 million annually thereafter.

On December 15, 2015, PFA issued the Series 2015 Grant Anticipation Revenue Bonds (the 2015 Bonds) in the amount of $89.9 million. The limited special obligation bonds are secured by a lien and security interest on Federal Highway Administration (FHA) grant revenues. The 2015 Bonds were issued to: (i) finance the costs of certain highway projects, (ii) establish debt service reserves, and (iii) to finance the costs of issuing the 2015 Bonds. The Government and FHA entered into a Memorandum of Understanding on December 9, 2015, to document the procedures, rules, and responsibilities of the Government to supervise the capital projects and to manage debt service payments. The 2015 Bonds mature from 2016 to 2033, at interest rates ranging from 3.0% to 5.0%. Interest is payable on March 1 and September 1 annually, and principal is payable on September 1 annually.

Financial Analysis of the Primary Government

Total assets and deferred outflows of resources of the Government as of September 30, 2016 and 2015 were approximately $2.8 billion and $2.1 billion, respectfully. Total liabilities and deferred inflows were approximately $6.5 billion and $5.8 billion, as of September 30, 2016 and 2015.

As of September 30, 2016, the Government's net position was a deficit of $3.7 billion consisting of $349.0 million invested in capital assets, net of related debt; $265.0 million restricted by statute or other legal requirements that were not available to finance day-to-day operations; and an unrestricted net deficit of $4.4 billion. As of September 30, 2015, the Government's net deficit of $3.7 billion consisted of $264.0 million invested in capital assets, net of related debt; $251.0 million restricted by statute or other legal requirements that were not available to finance day-to-day operations; and an unrestricted net deficit of $4.2 billion.

For the fiscal year ended September 30, 2016, the Government earned program and general revenue amounting to $1.6 billion and reported expenses of $1.6 billion, resulting in a decrease in net deficit of approximately $2.9 million. For the fiscal year ended September 30, 2015, the primary government earned program and general revenue amounting to $1.2 billion and reported expenses of $1.4 billion, resulting in an increase in net deficit of approximately $248.0 million.

Overall, revenue increased in fiscal 2016 by approximately $434.0 million, when compared to fiscal 2015, mainly due to gains recognized due to the operating agreement with Limetree amounting to $283.8 million, increases in operating grants of $60 million, increases in tax revenues of $76.0 million, increases in interest and other of $7.0 million, increase in contribution of $1.1 million, and increases in charges for services of $6.0 million. Overall expenses increased in fiscal 2016 by $180.0 million when compared to fiscal 2015, mainly due to increases in unfunded pension expense of $204.0 million, offset by a decrease in general government expense of $17.0 million, and a decrease in business-type expense of $7.0 million.

A summary of net position and changes in net position for the primary government follows *(expressed in thousands)*:

	Governmental Activities		Business-Type Activities		Total	
September 30,	2016	2015	2016	2015	2016	2015
Assets and Deferred Outflows						
Current assets	$ 1,003,546	$ 886,651	$ 34,282	$ 30,762	$ 1,037,828	$ 917,413
Internal balances	45,744	42,586	(45,744)	(42,586)	-	-
Capital assets	849,253	798,577	128,821	131,885	978,074	930,462
Other assets	4,607	5,051	1,101	1,092	5,708	6,143
Deferred outflows of resources	780,352	242,106	-	-	780,352	242,106
Total assets and deferred outflows	2,683,502	1,974,971	118,460	121,153	2,801,962	2,096,124
Liabilities and Deferred Inflows						
Long-term debt outstanding	5,772,152	5,029,592	69,148	62,516	5,841,300	5,092,108
Other liabilities	606,879	648,816	88,620	93,892	695,499	742,708
Deferred Inflow of resources	1,387	434	-	-	1,387	434
Total liabilities and deferred inflows	6,380,418	5,678,842	157,768	156,408	6,538,186	5,835,250
Net Position						
Net investment in capital assets	292,722	204,175	56,407	59,840	349,129	264,015
Restricted	257,932	244,290	7,018	6,293	264,950	250,583
Unrestricted (deficit)	(4,247,570)	(4,152,336)	(102,733)	(101,388)	(4,350,303)	(4,253,724)
Total net position (deficit)	$ (3,696,916)	$ (3,703,871)	$ (39,308)	$ (35,255)	$ (3,736,224)	$ (3,739,126)

	Governmental Activities		Business-Type Activities		Total	
September 30,	2016	2015	2016	2015	2016	2015
Revenues						
Program revenue:						
Charges for services	$ 25,426	$ 24,323	$ 61,030	$ 56,336	$ 86,456	$ 80,659
Operating grants and contributions	251,213	190,743	222	711	251,435	191,454
Capital grants and contributions	19,218	14,139	-	5,041	19,218	19,180
General revenue:						
Taxes	898,199	822,344	-	-	898,199	822,344
Interest and other	74,047	71,013	8,531	4,400	82,578	75,413
Payment in lieu of taxes	283,780	-	-	-	283,780	-
Contribution	1,100	-	-	-	1,100	-
Other general revenue	2,213	1,963	-	-	2,213	1,963
Total revenues	1,555,196	1,124,525	69,783	66,488	1,624,979	1,191,013
Expenses						
General government	684,735	634,644	-	-	684,735	634,644
Public safety	94,806	65,771	-	-	94,806	65,771
Health	83,852	71,155	-	-	83,852	71,155
Public housing and welfare	227,133	187,284	-	-	227,133	187,284
Education	274,187	235,515	-	-	274,187	235,515
Transportation and communication	62,478	45,584	-	-	62,478	45,584
Culture and recreation	11,253	9,049	-	-	11,253	9,049
Interest on long-term debt	108,497	107,961	-	-	108,497	107,961
Unemployment insurance	-	-	7,063	16,523	7,063	16,523
West Indian Company	-	-	11,951	11,865	11,951	11,865
Workmen's compensation	-	-	12,444	9,489	12,444	9,489
Virgin Islands Lottery	-	-	19,319	19,533	19,319	19,533
viNGN	-	-	8,902	9,810	8,902	9,810
Other	-	-	15,457	14,490	15,457	14,490
Total expenses	1,546,941	1,356,963	75,136	81,710	1,622,077	1,438,673
Changes in net position (deficit) before transfers	8,255	(232,438)	(5,353)	(15,222)	2,902	(247,660)
Transfers	(1,300)	(1,000)	1,300	1,000	-	-
Change in net position (deficit)	6,955	(233,438)	(4,053)	(14,222)	2,902	(247,660)
Net position (deficit), beginning of year	(3,703,871)	(3,470,433)	(35,255)	(21,033)	(3,739,126)	(3,491,466)
Net position (deficit), end of year	$ (3,696,916)	$ (3,703,871)	$ (39,308)	$ (35,255)	$ (3,736,224)	$ (3,739,126)

The Virgin Islands Office of Management and Budget prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in the Required Supplementary Information accompanying the basic financial statements.

A summary of the budgetary report for the General Fund of the Government, included on page 124 of the financial statements, follows (*expressed in thousands)*:

September 30, 2016	Original Budget	Amended Budget	Actual	Variance
Total revenues	$ 802,767	$ 802,767	$ 672,918	$ (129,849)
Total expenditures	697,762	812,919	901,548	(88,629)
Deficiency of revenues Over expenditures	105,005	(10,152)	(228,630)	(218,478)
Other financing sources, net	(105,005)	53,462	(3,990)	(57,452)
Excess (deficiency) of revenues and net other financing sources over expenditures	$ -	$ 43,310	$ (232,620)	$ (275,930)

For fiscal year 2016, the General Fund realized an unfavorable budgetary variance of $275.9 million mainly due to a decrease in other financing sources of $57.4 million offset by an operating deficiency of revenues over expenditures of $218.5 million.

Other financing sources increased mainly due to the issuance of the Series 2014 E Notes, amounting to $20.0 million and transfers from other funds of $34.0 million. The General Fund realized an unfavorable revenue variance of $187.0 million mainly due to tax revenues which were under budget by $25.0 million, charges for services which were less than budgeted amounts by $55.0 million, and interest and other revenues which were less than budget by $80.0 million during the fiscal year. The General Fund realized an unfavorable expenditures variance of $36.0 million due to increases in general government expenditures from budgeted amounts.

Capital Assets

Capital assets additions during fiscal year 2016 amounted to $92.6 million for governmental activities and $6.2 million for business-type activities.

Capital assets additions during fiscal year 2015 amounted to $31.2 million for governmental activities and $5.6 million for business-type activities.

The Government's capital assets include land, land improvements, buildings, building improvements, machinery and equipment, infrastructure, construction in progress, and intangibles as follows *(expressed in thousands)*:

	Governmental Activities		Business-Type Activities		Total	
September 30,	2016	2015	2016	2015	2016	2015
Land and improvements	$ 235,383	$ 202,286	$ 5,526	$ 5,526	$ 240,909	$ 207,812
Building and improvements	541,578	500,764	79,506	79,414	621,084	580,178
Machinery and equipment	197,441	191,610	79,135	76,130	276,576	267,740
Infrastructure	337,595	313,472	-	-	337,595	313,472
Intangibles	-	-	20,974	20,974	20,974	20,974
Construction in progress	55,645	70,279	8,191	5,113	63,836	75,392
Total capital assets	1,367,642	1,278,411	193,332	187,157	1,560,974	1,465,568
Less accumulated depreciation	(518,389)	(479,834)	(64,511)	(55,272)	(582,900)	(535,106)
Total capital assets, net	$ 849,253	$ 798,577	$ 128,821	$ 131,885	$ 978,074	$ 930,462

Note 9 provides detailed information regarding the capital assets of the primary government and the component units of the Government.

Debt Administration

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2016 *(expressed in thousands)*:

Bond Issue	Maturity	Rates (%)	Balance
2015 Series Federal Highway Bonds	2033	3.00-5.00	$ 85,415
2014 Series D Revenue Bonds	2033	6.03	5,600
2014 Series C Revenue Bonds	2044	4.50-5.00	242,495
2014 Series A Revenue Bonds	2034	5.00	48,160
2013 Series B Revenue Refunding Bonds	2024	3.00 – 5.00	46,295
2013 Series A Revenue Refunding Bonds	2024	5.00 – 5.25	33,790
2012 Series C Revenue Bonds	2042	3.00 – 5.00	31,725
2012 Series A & B Revenue & Refunding Bonds	2032	2.25 – 5.25	194,500
2012 Series A Revenue Bonds	2032	4.00 – 5.00	141,015
2010 Series A & B Revenue Bonds	2029	4.00 – 5.25	390,570
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 – 6.00	35,575
2009 Series A-1, B & C Revenue and Refunding Bonds	2039	3.00 – 5.00	316,815
2009 Series A Revenue Bonds (Diageo)	2037	6.00 – 6.75	237,095
2006 Series A Revenue Bonds	2029	3 50 – 5.00	199,830
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 – 7.63	7,290
2001 Series A Tobacco Bonds	2031	4.62 – 5.13	7,845
Total bonds outstanding			2,024,015
Plus (less):			
Bonds premium			57,799
Bonds discount			(2,692)
Bonds accretion			7,053
Net bonds outstanding			$ 2,086,175

Note 10 provides detailed information regarding all bonds of the primary government.

In fiscal year 2016, the Government issued the 2015 Series Federal Highway Bonds in the amount of $89.9 million to finance the costs of certain highway projects.

The Government made bond principal payments on outstanding general and special revenue bonds amounting to $73.0 million during fiscal year 2016 and $293.9 million during fiscal year 2015.

The Government's bonds secured by pledged rum excise taxes (matching funds) carry insured ratings of "BB" from Fitch Ratings and "B1" and "B2" from Moody's Investors Service, respectively as of the date of this report. The Government's bonds secured by gross receipts taxes carry insured ratings of "BB-" from Fitch Ratings and "BBB- plus" from Standard & Poor's Global Ratings (S&P).

Other Liabilities of the Primary Government

Other long-term outstanding liabilities of the Government include the following (*expressed in thousands*):

September 30,	2016	2015
Accrued compensated absences	$ 33,524	$ 32,198
Retroactive union arbitration	195,286	195,286
Litigation	13,783	23,799
Post-employment benefits	357,224	357,224
Landfill closure and post closure costs	90,958	83,553
Workers compensation	38,459	32,053
Total other liabilities	$ 729,234	$ 724,113

Net Pension Liabilities

The Government has implemented the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. These statements require the Government to report defined benefit pension plan.

Following is the net pension liability reported in fiscal years 2016 and 2015:

September 30,	2016	2015
Net pension liability	$ 3,065,617	$ 2,323,163

Economic Condition and Outlook

The Government promotes fiscal sustainability through a combination of revenue initiatives and budgetary restraints on expenditures.

Revenue Initiatives - The Government has implemented several initiatives to create jobs, stimulate economic growth and promote fiscal sustainability including: continued promotion of tourism through national advertising, increases in local tax rates, compliance initiatives to ensure voluntary tax filing requirements are met, and outreach to national and foreign investors. In December 2015, the Government negotiated a settlement with Hess Oil resulting in the transfer of $61.0 million in capital assets to the Government. In December 2015, the Government negotiated an operating agreement with Limetree at the former Hess Oil facility on the island of St. Croix, resulting in new tax revenue streams and an upfront payment to the Government of $220.0 million. The Government continues to promote its high-tech broadband capabilities, educated workforce and tax incentive programs to management, technology, and tourism-related industries.

Budgetary Control of Expenditures - The Government has experienced an increase in carry-forward liabilities from prior fiscal years mainly due to landfill closure costs, post-employment benefits for retirees, and net pension liabilities in connection with the Government's defined benefit pension plan. The Government also has carry-forward liabilities due to unpaid retroactive salary increases that accumulated following Hurricanes Hugo, Marilyn, and Bertha in the years of 1990 through 1998.

At September 30, 2016 and 2015, long-term liabilities for pension and other post-employment benefits to retired government employees amounted to $3.4 billion and $2.7 billion. The Government's defined benefit pension plan was 19.58% and 27.26% funded as of the measurement dates of September 30, 2015 and September 30, 2014.

Based on actuarial projections, the plan may not be able to meet its responsibilities by fiscal year 2023. A Pension Reform Joint Task Force has provided recommendations to the Legislature to (i) increase the retirement age of Government workers, (ii) restructure plan benefits, and (iii) to no longer allow retirees to both work and collect benefits from the Government. Effective February, 2015, the retirement system increased the contribution rates of participating employers in the plan by 3% and the contribution rates of participants in the plan by 1% phased in over three years (3% in total).

Deficit Reduction Measures - In fiscal years 2016 and 2015, the Government reported an unrestricted net deficit of $4.4 billion and $4.2 billion, respectively.

The Government has implemented a number of deficit reducing measures including: (i) withholding of local gross receipts taxes on Government invoice payments, (ii) increasing local taxes such as property tax assessments on time-shares, gross receipts taxes, and hotel taxes, (iii) passage of "sin taxes" on sales of sugary drinks and alcoholic beverages, (iv) exerting greater control of expenditures through the budgetary process, and (iv) increasing collection efforts for amounts due to the Government from taxpayers.

Contacting the Government's Financial Management

This financial report is designed to provide the Government's citizens, taxpayers, customers, and creditors with a general overview of the Government's finances. If you have questions about this report, or need additional financial information, contact the Government of the United States Virgin Islands, Department of Finance, No. 2314 Kronprindsens Gade, St. Thomas, VI 00802.

Basic Financial Statements

Government of the United States Virgin Islands

Statement of Net Position

(in thousands)

September 30, 2016	Primary Government Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 126,723	$ 16,344	$ 143,067	$ 81,804
Investments, at fair value	610,119	1,648	611,767	22,431
Receivables, net	216,312	9,272	225,584	53,506
Internal balances	45,744	(45,744)	-	-
Due from federal government	46,247	-	46,247	8,772
Due from component units	4,145	-	4,145	88
Due from primary government	-	-	-	44,333
Inventories	-	-	-	26,029
Prepayments and other assets	-	-	-	27,765
Restricted:				
Cash and cash equivalents	-	7,018	7,018	92,854
Investments	-	-	-	109,452
Other	-	-	-	20,852
Capital assets, net	849,253	128,821	978,074	1,017,960
Notes receivable	-	-	-	11,542
Other assets	4,607	1,101	5,708	54,682
Total assets	1,903,150	118,460	2,021,610	1,572,070
Deferred Outflow of Resources				
Deferred amounts related to pension	772,091	-	772,091	278,848
Deferred charges on bond refunding	8,261	-	8,261	4,980
Total deferred outflows of resources	780,352	-	780,352	283,828
Total assets and deferred outflows of resources	$ 2,683,502	$ 118,460	$ 2,801,962	$ 1,855,898

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Net Position

(in thousands)

September 30, 2016	Primary Government Governmental Activities	Business-type Activities	Total	Component Units
Liabilities				
Accounts payable and accrued liabilities	$ 176,749	$ 7,552	$ 184,301	$ 229,219
Tax refunds payable	52,833	-	52,833	-
Unemployment insurance benefits	-	9,715	9,715	-
Customer deposits	-	-	-	28,840
Due to primary government	-	-	-	4,145
Due to component units	20,612	-	20,612	8,302
Due to federal government	3,261	-	3,261	4,867
Interest payable	50,343	-	50,343	6,153
Unearned revenues	202,725	696	203,421	24,534
Other current liabilities:				
Line of credit payable	-	-	-	27,628
Notes payable	8,639	69,874	78,513	4,624
Bonds payable	80,583	-	80,583	18,029
Other liabilities	5,250	783	6,033	18,997
Noncurrent liabilities:				
Notes payable	21,302	31,472	52,774	82,502
Bonds payable	2,005,592	-	2,005,592	280,809
Net pension liability	3,065,617	-	3,065,617	972,637
Other liabilities	685,525	37,676	723,201	93,926
Total liabilities	6,379,031	157,768	6,536,799	1,805,212
Deferred Inflows of Resources				
Deferred amounts related to pension	1,387	-	1,387	38,504
Total deferred inflows of resources	1,387	-	1,387	38,504
Total liabilities and deferred inflows of resources	$ 6,380,418	$ 157,768	$ 6,538,186	$ 1,843,716
Net Position (Deficit)				
Net investment in capital assets	$ 292,722	$ 56,407	$ 349,129	$ 768,636
Restricted:				
Unemployment insurance	-	4,044	4,044	-
Debt service	257,675	-	257,675	-
Capital projects	257	-	257	-
Other purposes	-	2,974	2,974	173,772
Unrestricted (deficit)	(4,247,570)	(102,733)	(4,350,303)	(930,226)
Total net position (deficit)	$ (3,696,916)	$ (39,308)	$ (3,736,224)	$ 12,182

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Activities

(in thousands)

Year Ended September 30, 2016		Program Revenues			Net Revenue (Expense) and Changes in Net Position — Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Functions:								
Primary government:								
Governmental activities:								
General government	$ 684,735	$ 21,100	$ 251,213	$ 19,218	$ (393,204)	$ –	$ (393,204)	$ –
Public safety	94,806	570	-	-	(94,236)	-	(94,236)	-
Health	83,852	770	-	-	(83,082)	-	(83,082)	-
Public housing and welfare	227,133	344	-	-	(226,789)	-	(226,789)	-
Education	274,187	346	-	-	(273,841)	-	(273,841)	-
Transportation and communication	62,478	647	-	-	(61,831)	-	(61,831)	-
Culture and recreation	11,253	1,649	-	-	(9,604)	-	(9,604)	-
Interest on long-term debt	108,497	-	-	-	(108,497)	-	(108,497)	-
Total governmental activities	1,546,941	25,426	251,213	19,218	(1,251,084)	-	(1,251,084)	-
Business-type activities:								
West Indian Company	11,951	9,144	-	-	-	(2,807)	(2,807)	-
Unemployment insurance	7,063	17,188	222	-	-	10,347	10,347	-
viNGN	8,902	3,527	-	-	-	(5,375)	(5,375)	-
Other	47,220	31,171	-	-	-	(16,049)	(16,049)	-
Total business-type activities	75,136	61,030	222	–	–	(13,884)	(13,884)	-
Total primary government	$ 1,622,077	$ 86,456	$ 251,435	$ 19,218	$ (1,251,084)	$ (13,884)	$ (1,264,968)	$ –
Component units:								
Virgin Islands Port Authority	$ 73,741	$ 54,796	$ -	$ 5,001	$ -	$ -	$ -	$ (13,944)
Virgin Islands Housing Authority	52,956	5,009	42,565	3,078	-	-	-	(2,304)
Virgin Islands Water and Power Authority:								
Electric System	255,116	224,310	-	4,359	-	-	-	(26,447)
Water System	33,671	31,278	-	1,499	-	-	-	(894)
Virgin Islands Government Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	96,264	51,125	31,456	1,474	-	-	-	(12,209)
Juan F. Luis Hospital	84,963	57,239	28,326	–	-	-	-	602
University of the Virgin Islands (unaudited)	87,892	52,882	21,055	4,692	-	-	-	(9,263)
Other component units	72,615	12,990	49,824	5,447	-	-	-	(4,354)
Total component units	$ 757,218	$ 489,629	$ 173,226	$ 25,550	$ -	$ -	$ -	$ (68,813)
Total primary government and component units					$ (1,251,084)	$ (13,884)	$ (1,264,968)	$ (68,813)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Activities

(in thousands)

Year Ended September 30, 2016	Net Revenue (Expense) and Changes in Net Position			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General revenue:				
Taxes	$ 898,199	$ -	$ 898,199	$ -
Payment in lieu of taxes	283,780	-	283,780	-
Interest and other	74,047	8,531	82,578	20,961
Contribution	1,100	-	1,100	-
Tobacco settlement rights	2,213	-	2,213	-
Transfers – internal activities of primary government	(1,300)	1,300	-	-
Total general revenue and transfers	1,258,039	9,831	1,267,870	20,961
Changes in net position	6,955	(4,053)	2,902	(47,852)
Net position (deficit), beginning of year, as restated	(3,703,871)	(35,255)	(3,739,126)	60,034
Net position (deficit), end of year	$ (3,696,916)	$ (39,308)	$ (3,736,224)	$ 12,182

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Balance Sheet - Governmental Funds

(in thousands)

September 30, 2016	General	PFA Debt Service	PFA Capital Projects	Federal Grants	Other Governmental	Total Governmental
Assets						
Cash and cash equivalents	$ 2,612	$ 9,423	$ 24,420	$ -	$ 90,268	$ 126,723
Investments, at fair value	125,923	347,308	131,837	-	5,051	610,119
Receivables:						
Taxes, net	165,575	48,942	-	-	-	214,517
Other	62	-	-	-	116	178
Due from federal government	-	-	-	46,247	-	46,247
Due from:						
Other funds	24,350	-	36,975	-	24,747	86,072
Component units, net	4,145	-	-	-	-	4,145
Total assets	$ 322,667	$ 405,673	$ 193,232	$ 46,247	$ 120,182	$ 1,088,001
Liabilities						
Accounts payable and accrued liabilities	$ 114,626	$ 17	$ 12	$ 46,063	$ 16,031	$ 176,749
Tax refunds payable	52,833	-	-	-	-	52,833
Due to federal government	-	-	-	3,261	-	3,261
Unearned revenue	90,339	108,886	-	-	3,500	202,725
Due to:						
Other funds	22,828	-	-	-	17,500	40,328
Component units	17,993	-	2,615	-	4	20,612
Total liabilities	298,619	108,903	2,627	49,324	37,035	496,508
Deferred Inflow of Resources						
Unavailable revenues	97,134	39,095	-	-	-	136,229
Total liabilities and deferred inflow of resources	395,753	147,998	2,627	49,324	37,035	632,737
Fund balances (deficit)						
Restricted	-	257,675	190,605	-	-	448,280
Committed	16,513	-	-	-	30,059	46,572
Assigned	-	-	-	-	113,973	113,973
Unassigned	(89,599)	-	-	(3,077)	(60,885)	(153,561)
Total fund (deficit) balances	(73,086)	257,675	190,605	(3,077)	83,147	455,264
Total liabilities, deferred inflow of resources and fund balances	$ 322,667	$ 405,673	$ 193,232	$ 46,247	$ 120,182	
Amounts reported for governmental activities in the statement of net position are different because:						
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds.						849,253
Expenditures identified as related to a future period are recognized as a prepaid asset in the statement of net position.						4,607
Deferred costs of refunding bonds are not financial resources and are therefore, not reported in the funds.						8,261
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and therefore, are deferred in the funds.						137,846
Deferred outflows and inflows of resources of pension liabilities are not current financial resources and therefore, are not included in the funds.						770,704
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.						(50,343)
Long-term pension liabilities are not due and payable in the current period and therefore, are not reported in the funds.						(3,065,617)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds.						(2,806,891)
Net position (deficit) of governmental activities						$ (3,696,916)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

(in thousands)

Year Ended September 30, 2016	General	PFA Debt Service	PFA Capital Projects	Federal Grants	Other Governmental	Total Governmental
Revenues						
Taxes	$ 612,886	$ 266,711	$ 1,622	$ -	$ 17,659	$ 898,878
Payment in lieu of taxes	223,000	-	-	-	-	223,000
Federal grants and contributions	10,425	7,574	-	246,715	5,717	270,431
Charges for services	11,506	-	-	-	13,920	25,426
Tobacco settlement rights	-	-	-	-	2,157	2,157
Interest and other	38,101	3,320	326	-	34,094	75,841
Total revenues	895,918	277,605	1,948	246,715	73,547	1,495,733
Expenditures						
Current:						
General government	523,224	61	4,843	28,824	32,046	588,998
Public safety	65,659	-	-	3,062	(35)	68,686
Health	52,476	-	-	18,743	562	71,781
Public housing and welfare	57,540	-	-	148,215	2,150	207,905
Education	176,550	-	-	23,886	6,125	206,561
Transportation and communication	18,162	-	-	1,688	24,933	44,783
Culture and recreation	7,937	-	-	-	(4)	7,933
Capital outlays	2,319	-	5,633	16,541	6,220	30,713
Debt service:						
Principal	100,819	73,760	1,585	-	1,675	177,839
Interest	1,933	105,143	82	-	2,071	109,229
Bond issuance costs	404	2,780	-	-	-	3,184
Total expenditures	1,007,023	181,744	12,143	240,959	75,743	1,517,612
Excess (deficiency) of revenue over expenditures	(111,105)	95,861	(10,195)	5,756	(2,196)	(21,879)
Other financing sources (uses)						
Bonds issued	-	-	89,880	-	-	89,880
Loans issued	20,000	-	1,270	-	-	21,270
Bond premiums	-	10,356	1,120	-	-	11,476
Transfers from other funds	93,272	151	-	-	14,393	107,816
Transfers to other funds	(16,443)	(92,673)	-	-	-	(109,116)
Total other financing sources (uses), net	96,829	(82,166)	92,270	-	14,393	121,326
Net change in fund balances	(14,276)	13,695	82,075	5,756	12,197	99,447
Fund balance (deficit), beginning of year	(58,810)	243,980	108,530	(8,833)	70,950	355,817
Fund balance (deficit), end of year	$ (73,086)	$ 257,675	$ 190,605	$ (3,077)	$ 83,147	$ 455,264

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds

(in thousands)

Year Ended September 30, 2016	
Net change in fund balances – total governmental funds	$ 99,447
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.	50,676
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.	(623)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This is the amount by which debt repayments of $177.8 million exceed the loan and bond proceeds of $111.2 million.	66,689
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net position of the previous year increased expenses reported in the statement of activities that do not require the use of current financial resources.	1,285
Some expenses reported as prepaid assets in the statement of net position in the current year are recognized as expenses in the following year in the statement of activities.	(444)
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts, deferred refunding, and accreted interest on capital appreciation bonds during the current year.	(7,388)
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in interest payable reported in the statement of net assets.	1,603
Certain pension expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in pension liabilities for the allocable share of pension expense reported in the statement of net position.	(204,290)
Change in net position of governmental activities	$ 6,955

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Net Position – Proprietary Funds

(in thousands)

	Business-type Activities				
September 30, 2016	**West Indian Company**	**Unemployment Insurance**	**viNGN**	**Other Enterprise**	**Totals**
Assets					
Current assets:					
Cash and cash equivalents	$ 2,594	$ 476	$ 3,314	$ 9,960	$ 16,344
Investments, at fair value	-	-	-	1,648	1,648
Receivables, net:					
Premiums receivable	-	6,142	-	-	6,142
Other receivables	1,881	-	573	676	3,130
Due from other funds	-	-	-	300	300
Other assets	634	-	316	151	1,101
Total current assets	5,109	6,618	4,203	12,735	28,665
Noncurrent assets:					
Restricted cash and cash equivalents	2,974	4,044	-	-	7,018
Capital assets	44,605	-	76,884	7,332	128,821
Total noncurrent assets	47,579	4,044	76,884	7,332	135,839
Total assets	$ 52,688	$ 10,662	$ 81,087	$ 20,067	$ 164,504
Liabilities					
Current liabilities:					
Accounts payable and accrued liabilities	$ 3,104	$ -	$ 284	$ 4,164	$ 7,552
Due to other funds	6,650	-	36,651	2,743	46,044
Unemployment insurance benefits	-	9,715	-	-	9,715
Workers compensation	-	-	-	783	783
Loan payable to U.S. Treasury	-	69,165	-	-	69,165
Unearned revenue	-	-	-	696	696
Loans payable related to capital assets	709	-	-	-	709
Total current liabilities	10,463	78,880	36,935	8,386	134,664
Noncurrent liabilities:					
Workers compensation	-	-	-	37,676	37,676
Loans payable related to capital assets	31,472	-	-	-	31,472
Total noncurrent liabilities	31,472	-	-	37,676	69,148
Total liabilities	$ 41,935	$ 78,880	$ 36,935	$ 46,062	$ 203,812
Net Position (Deficit)					
Net investment in capital assets	$ 12,424	$ -	$ 36,651	$ 7,332	$ 56,407
Restricted	2,974	4,044	-	-	7,018
Unrestricted (deficit)	(4,645)	(72,262)	7,501	(33,327)	(102,733)
Total net position (deficit)	$ 10,753	$ (68,218)	$ 44,152	$ (25,995)	$ (39,308)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Revenues, Expenses, and Changes in Net Position − Proprietary Funds

(in thousands)

	Business-type Activities				
Year Ended September 30, 2016	**West Indian Company**	**Unemployment Insurance**	**viNGN**	**Other Enterprise**	**Totals**
Operating revenues					
Charges for services	$ 9,144	$ 17,188	$ 3,527	$ 31,171	$ 61,030
Operating expenses					
Cost of services	6,887	7,063	3,953	45,967	63,870
Amortization	-	-	754	-	754
Depreciation	3,037	-	4,195	1,253	8,485
Total operating expenses	9,924	7,063	8,902	47,220	73,109
Operating income (loss)	(780)	10,125	(5,375)	(16,049)	(12,079)
Non-operating revenues (expenses)					
Federal grants	-	222	-	-	222
Interest and other income	142	65	10	8,314	8,531
Interest expense	(2,027)	-	-	-	(2,027)
Total non-operating revenues (expenses), net	(1,885)	287	10	8,314	6,726
(Loss) income before operating transfers	(2,665)	10,412	(5,365)	(7,735)	(5,353)
Transfers from other funds	-	-	-	2,000	2,000
Transfers to other funds	(700)	-	-	-	(700)
Change in net position	(3,365)	10,412	(5,365)	(5,735)	(4,053)
Net position (deficit), beginning of year	14,118	(78,630)	49,517	(20,260)	(35,255)
Net position (deficit), end of year	$ 10,753	$ (68,218)	$ 44,152	$ (25,995)	$ (39,308)

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Cash Flows − Proprietary Funds

(in thousands)

	Business-type Activities				
Year Ended September 30, 2016	West Indian Company	Unemployment Insurance	viNGN	Other Enterprise	Totals
Cash flows from operating activities					
Receipts from customers and users	$ 9,150	$ 12,116	$ 3,383	$ 31,217	$ 55,866
Payments to beneficiaries, suppliers, and employees	(4,720)	(9,568)	(5,187)	(40,152)	(59,627)
Net cash provided by (used in) operating activities	4,430	2,548	(1,804)	(8,935)	(3,761)
Cash flows from noncapital financing activities					
Other income	-	65	-	8,314	8,379
Transfer in (out) to other funds	-	-	-	2,000	2,000
Federal grants	-	222	-	-	222
Net cash provided by noncapital financing activities	-	287	-	10,314	10,601
Cash flows from capital and related financing activities					
Acquisition and construction of capital assets	(3,543)	-	(1,973)	(659)	(6,175)
Proceeds from other sources for capital assets	-	-	2,429	-	2,429
Issuance of debt	334	-	-	-	334
Principal paid on debt issuances	(2,076)	(3,030)	-	-	(5,106)
Net cash (used in) provided by capital and related financing activities	(5,285)	(3,030)	456	(659)	(8,518)
Cash flows from investing activities					
Interest on investments	7	-	10	-	17
Sale (purchase) of investments	-	-	-	(6)	(6)
Net cash provided by (used in) investing activities	7	-	10	(6)	11
Net (decrease) increase in cash and cash equivalents	(848)	(195)	(1,338)	714	(1,667)
Cash and cash equivalents, beginning of year	6,416	4,715	4,652	9,246	25,029
Cash and cash equivalents, end of year	$ 5,568	$ 4,520	$ 3,314	$ 9,960	$ 23,362
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities					
Operating income (loss)	$ (780)	$ 10,125	$ (5,375)	$ (16,049)	$ (12,079)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation and amortization	3,037	-	4,949	1,253	9,239
Other income	135	-	-	-	135
Change in assets and liabilities:					
Receivables, net	(101)	(5,073)	(142)	(18)	(5,334)
Unearned revenue	-	-	-	64	64
Customer deposits	3	-	-	-	3
Other assets	(7)	-	24	(27)	(10)
Accounts payable and accrued liabilities	2,143	-	(1,260)	(593)	290
Unemployment insurance benefits	-	(2,504)	-	-	(2,504)
Workers compensation	-	-	-	6,406	6,406
Due to other funds	-	-	-	29	29
Net cash provided by (used in) operating activities	$ 4,430	$ 2,548	$ (1,804)	$ (8,935)	$ (3,761)
Reconciliation of cash and cash equivalents to the statement of net position					
Cash and cash equivalents – current	$ 2,594	$ 476	$ 3,314	$ 9,960	$ 16,344
Cash and cash equivalents – restricted	2,974	4,044	-	-	7,018
Total cash and cash equivalents, end of year	$ 5,568	$ 4,520	$ 3,314	$ 9,960	$ 23,362

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Fiduciary Net Position

(in thousands)

September 30, 2016		Pension Trust		Agency
Assets				
Cash and cash equivalents:				
Unrestricted	$	43,231	$	3,480
Restricted		30		-
Investments, at fair value:				
Certificate of deposits		-		3,185
Cash collateral received under securities lending transactions		24,032		-
U.S. Government and agency obligations		17,771		-
Corporate obligations		23,465		-
Common stock - U.S.		143,554		-
Mortgage and asset backed securities		29,769		-
Mutual funds		385,944		-
Investment loans		31,374		-
Real estate investment trust		2,726		-
Limited partnerships		40,179		-
Real estate		72,269		-
Receivables, net:				
Loans and advances		127,700		-
Accrued interest		1,694		-
Other		521		-
Other assets		16,385		-
Total assets	$	960,644	$	6,665
Liabilities				
Accounts payable and accrued liabilities	$	-	$	6,665
Benefits in process of payment		4,269		-
Unsettled securities purchased		762		-
Securities lending collateral		24,032		-
Other liabilities		14,419		-
Total liabilities		43,482		6,665
Net position restricted for pension benefits	$	917,162	$	-

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Position

(in thousands)

Year Ended September 30, 2016		**Pension Trust**
Additions		
Contributions:		
Employer	$	86,347
Plan members		41,460
Total contributions		127,807
Investment income:		
Net depreciation of fair value of investments	$	57,226
Interest, dividends, and other, net		17,760
Real estate – net rental loss		(1,073)
Total investment income		73,913
Less investment expense		2,918
		70,995
Other income		1,599
Total additions		200,401
Deductions		
Benefits paid		250,033
Refunds of contributions		8,978
Administrative and operational expenses		15,269
Total deductions		274,280
Change in net position		(73,879)
Net position restricted for pension benefits, beginning of year		991,041
Net position restricted for pension benefits, end of year	$	917,162

See accompanying notes to financial statements.

1. Summary of Significant Accounting Policies

The Government of the United States Virgin Islands (the Government) is an unincorporated organized territory of the United States of America. The powers of the Government are derived from and set forth in the Revised Organic Act of 1954, as amended. The Government assumes responsibility for public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

The accompanying basic financial statements of the Government have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The accompanying basic financial statements have been prepared primarily from accounts maintained by the Department of Finance of the Government. Additional data has been derived from reports prepared by other departments, agencies, and public corporations based on independent or subsidiary accounting systems maintained by them.

Financial Reporting Entity

For financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable and organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the reporting entity's financial statements to be misleading. The criteria used to define financial accountability include: (i) if an organization is fiscally dependent on, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG, (ii) a government board appointed by a higher level of government, or (iii) a jointly appointed board.

The financial statements of the following component units are included in the financial reporting entity either as blended or as discretely presented component units in accordance with GAAP:

(a) Blended Component Units

The following public benefit corporations, while legally separate from the Government, meet the criteria to be reported as part of the PG because they provide services entirely or almost entirely to the Government:

Virgin Islands Public Finance Authority (PFA)

PFA was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, *the Government Capital Improvement Act of 1988*, with the purpose of aiding 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, PFA has the power, among other matters, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government or any governmental instrumentality. The powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the Legislature (the Legislature). PFA activities are blended within the PG and are reported as major funds, with the exception of the PFA Special Revenue Fund, which is included in the other aggregate remaining fund information.

PFA's blended component units, the West Indian Company (WICO) and Virgin Islands Next Generation Network (viNGN) are presented as a major enterprise funds and King's Alley Management, Inc., is included in other nonmajor enterprise funds in the Government's basic financial statements.

Tobacco Settlement Financing Corporation (TSFC)

TSFC was created in September 2001 under Act No. 6428 as a separate and independent corporation of the Government to purchase the rights, title, and interest in tobacco settlement litigation awards and to issue revenue bonds supported by the tobacco settlement rights. The responsibility for the operations of TSFC is vested in a board of directors composed of three Government officials appointed by the Governor and two private citizens. The activities of TSFC are limited to activities conducted on behalf of the Government. The TSFC is reported in the other aggregate remaining fund information.

Complete audited financial statements of the PFA and TSFC blended component units can be obtained directly by contacting their respective administrative offices:

Administrative Offices of Blended Component Units

Virgin Islands Public Finance Authority
32-33 Kongens Gade, Government Hill
St. Thomas, VI 00802

Tobacco Settlement Financing Corporation
32-33 Kongens Gade, Government Hill
St. Thomas, VI 00802

(b) Discretely Presented Component Units

The following component units, as required by GAAP are discretely presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will.

The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

Major Component Units

Virgin Islands Housing Authority (VIHA)

VIHA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 903 on June 18, 1962, with the purpose of providing housing for low and moderate income families residing in the U.S. Virgin Islands. From June 1962 through August 2003, the powers of VIHA were exercised by a board of commissioners consisting of seven members. In August 2003, the U.S. Department of Housing and Urban Development (HUD) determined that because of the severity of compliance violations, VIHA was declared to be in substantial default of its annual contributions contract (ACC) dated July 12, 1996 with HUD. VIHA was placed in receivership and HUD assumed control of all assets, projects, and programs. On May 30, 2014, the HUD receivership ended, and management of VIHA was returned to the board of trustees appointed by the PG. An executive director is appointed by VIHA's Board to manage the day-to-day operations.

Virgin Islands Port Authority (VIPA)

VIPA was created as a body corporate and politic constituting a public corporation and autonomous government instrumentality by Act No. 2375 on December 23, 1968, with the purposes of owning, operating, and managing air and marine terminals. The powers of VIPA are exercised by a board of governors consisting of the Commissioner of Economic Development and Agriculture (Chairperson), the Attorney General, the Commissioner of Public Works, the Director of the Small Business Development Agency, and five other persons appointed by the Governor with the advice and consent of the Legislature.

Virgin Islands Water and Power Authority (WAPA)

WAPA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 1248 on August 13, 1964, with the purpose of operating the water production and electric generation plants in the U.S. Virgin Islands. The powers of WAPA are exercised by a governing board consisting of nine members, all appointed by the Governor with the advice and consent of the Legislature, from which three are heads of cabinet-level executive departments or agencies and six other persons, who are nominated by the Legislature. WAPA is required by its bond resolutions to maintain separate audited financial statements for each system (the Electric and Water Systems).

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

VIGHHFC was created by Act No. 6012 on August 23, 1994 and became active on May 1, 1999, with the purpose of providing healthcare services and hospital facilities to the people of the U. S. Virgin Islands. The powers of VIGHHFC are exercised by a board of directors consisting of 15 members as follows: the Director of the Office of Management and Budget, the Commissioner of Finance, and 13 other members appointed by the Governor with the advice and consent of the Legislature. The VIGHHFC is composed of the Roy L. Schneider Hospital located in St. Thomas and the Juan F. Luis Hospital and Medical Center located in St. Croix. Both entities issue separate audited financial statements. The Roy L. Schneider Hospital's financial statements include its component units: the Myra Keating Smith Community Health Center (Health Center) of St. John and the Charlotte Kimelman Cancer Institute (Cancer Institute) on St. Thomas. The Health Center and Cancer Institute are legally separated organizations for which the Roy L. Schneider Hospital is financially accountable. The Juan F. Luis Hospital and Medical Center's financial statements include its component unit: the Virgin Islands Cardiac Center at the Governor Juan F. Luis Hospital and Medical Center Foundation, Inc. (VICC Foundation). VICC Foundation is a legally separate nonprofit corporation for which the Juan F. Luis Hospital and Medical Center is financially accountable.

University of the Virgin Islands (the University)

The University was organized as an instrumentality of the Government under Act No. 852 on March 16, 1962, in accordance with Section 16(a) of the Revised Organic Act of 1954, as amended. The purpose of the University is the stimulation and utilization of the intellectual resources of the people of the U.S. Virgin Islands and the development of a center of higher education. The powers of the University are exercised by a board of trustees consisting of 17 members as follows: Chairman of the Board of Education, Commissioner of Education, and the President of the University, all serving as members ex-officio, 9 other members appointed by the Governor with the advice and consent of the Legislature, two other members elected by the board of trustees, one representative of the student body, one alumnus of the University, and another representative of the teaching faculty. The University was not organized as a self-sustaining entity and therefore receives substantial financial and other support from the Government.

The University's financial statements include its blended component units: The Foundation for the University of the Virgin Islands and The Reichhold Center Foundation. The Foundation for the University of the Virgin Islands is a nonprofit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Reichhold Center Foundation is a nonprofit corporation that supports the arts and provides financial assistance in operating the Reichhold Center for the Arts on the St. Thomas campus of the University.

Virgin Islands Economic Development Authority (EDA)

EDA was created by Act No. 6390 on December 21, 2000, as a body corporate and politic constituting a public corporation and semiautonomous instrumentality of the Government. EDA was created as an umbrella authority to assume, integrate, and unify the functions of the Economic Development Commission, the Small Business Development Agency, the Government Development Bank, and the Virgin Islands Industrial Development Park Corporation. The powers of EDA are exercised by a board of directors consisting of the members of the Virgin Islands Economic Development Commission, the Director of the Virgin Islands' Bureau of Internal Revenue, and five members not employed by the Government, but appointed by the Governor with the advice and consent of the Legislature.

Magens Bay Authority (MBA)

MBA was created as a corporate instrumentality by Act No. 2085 on December 20, 1967, with the purpose of acquiring, improving, and operating parks and beaches. The powers of MBA are exercised by a board of directors consisting of the Governor and six members initially appointed by the Governor. The board of directors is responsible for the appointment and reappointment of subsequent board members except that the Governor, with the advice and consent of the Legislature may, by appointment, fill any vacancy on the board of directors remaining unfilled for sixty days.

Virgin Islands Housing Finance Authority (VIHFA)

VIHFA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government by Act No. 4636 on October 20, 1981, with the purpose of stimulating low and moderate-income housing construction and home ownership through the issuance of revenue bonds to obtain funds to be used for low-interest mortgage loans to qualified purchasers of low and moderate-income housing. On October 31, 2008, VIHFA established the Virgin Islands Housing Management, Inc. (VIHM), a wholly-owned nonprofit subsidiary for the purpose of managing VIHFA's rental properties. The financial statements of VIHM are separately issued, and not blended into the PG. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with advice and consent of the Legislature.

Virgin Islands Public Broadcasting System (VIPBS)

VIPBS was created as a body corporate and politic constituting a public corporation and autonomous instrumentality by Act No. 2364 on November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of the population of the U.S. Virgin Islands as well as to provide an effective supplement to the in-school education of children.

The powers of VIPBS are exercised by a board of directors consisting of the Commissioner of Education, the Chairman of the Board of Education, three members appointed by the President of the Legislature, and four members, not more than two of whom should be employed by the Government and appointed by the Governor with the advice and consent of the Legislature.

In addition, the Director of the Office of Management and Budget, the President of the University of the Virgin Islands, and the General Manager of VIPBS are ex-officio members of the board who are not entitled to vote.

Virgin Islands Waste Management Authority (VIWMA)

VIWMA was established as a nonprofit, public, autonomous instrumentality of the Government by Act No. 6638 and approved by the Governor of the Virgin Islands on January 23, 2004. VIWMA provides environmentally sound management for the collection and disposal of solid waste in the Territory, including operation and closure of landfills and wastewater collection, treatment, and disposal. VIWMA is governed by a Board of Directors consisting of seven members.

University of the Virgin Islands Research and Technology Park Corporation (RTPark)

RTPark was established as a public, autonomous instrumentality of the Government by Act 6502 on February 21, 2002, as amended, by Act 6725, the Protected Cell Amendments Act of 2005. RTPark was organized for internet commerce and technology, providing an enabling environment for research, development, business incubation and technology-driven businesses. RTPark is governed by a Board of Directors consisting of seven members, including the Chairman of the Board of Trustees of the University, the President of the University, two trustees selected from among the Board of Trustees of the University, and three members selected by the Governor.

Complete audited financial statements of the discretely presented component units can be obtained directly by contacting their administrative offices:

Administrative Offices

Virgin Islands Housing Authority
402 Estate Anna's Retreat
P.O. Box 7668
St. Thomas, VI 00801

Virgin Islands Port Authority
P.O. Box 301707
St. Thomas, VI 00803

Virgin Islands Water and Power Authority
P.O. Box 1450
St. Thomas, VI 00804

Virgin Islands Government Hospital and Health Facilities Corporation
9048 Sugar Estate
St. Thomas, VI 00802

University of the Virgin Islands
2 John Brewer's Bay
St. Thomas, VI 00802

Virgin Islands Economic Development Authority
Nisky Shopping Center, Suite 620
St. Thomas, VI 00802

Magens Bay Authority
P.O. Box 10583
St. Thomas, VI 00801

Virgin Islands Housing Finance Authority
3202 Demarara
Frenchtown Plaza, Suite 200
St. Thomas, VI 00802

Virgin Islands Public Broadcasting System
P.O. Box 7879
St. Thomas, VI 00801

Virgin Islands Waste Management Authority
#1 La Grande Princesse, Suite BL1
Christiansted, VI 00820

University of the Virgin Islands Research and Technology Park Corporation
RR1 Box 10000
Kingshill, St. Croix, VI 00850-9781

All financial statements of the discretely presented component units have a fiscal year end of September 30, 2016, except for WAPA and VIHA which have a fiscal year-end of June 30, 2016 and December 31, 2015, respectively.

(c) Fiduciary Component Unit

The following public benefit corporation is legally separate from the Government, meets the definition of a blended component unit, and is presented in the fund financial statements along with other fiduciary funds of the Government. Fiduciary funds are not reported in the government-wide financial statements.

<u>Employees' Retirement System of the Government of the Virgin Islands (GERS)</u>

GERS was created as an independent and separate agency of the Government with the purpose of administering the Government's and the component units' cost-sharing, multi-employer defined benefit pension plan. GERS was established on October 1, 1959. The responsibility for the operation of GERS is vested in a board of trustees composed of seven members appointed by the Governor with the advice and consent of the Legislature.

Employee and employer contributions to GERS are recognized as additions to net position held in trust for employees' pension benefits in the period in which employee services are performed, except for contributions pursuant to the Early Retirement Act of 1994, which are recorded as the cash is received. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan, except for benefits pursuant to sections 8(a) and 8(b) of the Early Retirement Act of 1994, which are recorded when the subsidy provided by the Government is receivable and payable.

Complete audited financial statements of this component unit can be obtained directly by contacting its administrative office:

Employees' Retirement System of the Government of the Virgin Islands
3438 Kronprindsens Gade
St. Thomas, Virgin Islands 00802

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the PG and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net position presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net position. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not included among program revenues and are appropriately reported instead, as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP as prescribed by the GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when eligibility requirements have been met.

(b) Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available when they become susceptible to accrual and are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, real property taxes, and income taxes are considered to be available if collected within 30, 60, and 90 days, respectively, after the end of the current fiscal year-end. Grant revenue is considered to be available if collected within the 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and pension expenditures are recorded only when payment is due.

Income taxes, gross receipts taxes, real property taxes, and grant funding are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period to the extent they are considered available. All other revenue items are considered to be measurable and available only when cash is received by the Government.

(c) Proprietary Funds, Fiduciary Funds, and Discretely Presented Component Units Financial Statements

The financial statements of the proprietary funds, fiduciary funds, and discretely presented component units are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide financial statements described above.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Accounting

The Government reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. GAAP, establishes criteria (percentage of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Indirect costs are automatically allocated and reported in the program expense for each fund. Non-major funds are combined in a single column in the fund financial statements. The Government reports the following major funds:

(a) Governmental Funds

The Government reports the following major governmental funds:

- General Fund – The general fund is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

- PFA Debt Service Fund – The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government.

- PFA Capital Projects Fund – The PFA capital projects fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

- Federal Grants Fund - The federal grants fund accounts for proceeds and payments that are restricted to expenditures for specified purposes.

(b) Proprietary Funds

These funds account for those activities for which the intent of management is to recover, primarily through user charges, the cost of providing goods or services to the general public. The Government reports the following major proprietary funds:

- West Indian Company – WICO, a blended component unit of PFA, accounts for the activities of a cruise ship pier and shopping mall complex on the island of St. Thomas.

- Unemployment Insurance Fund – The unemployment insurance fund accounts for the collection of unemployment premiums from employers in the U.S. Virgin Islands, and the payment of unemployment benefits to eligible unemployed recipients.

- Virgin Islands Next Generation Network (viNGN) Fund – The viNGN fund accounts for the management of a middle mile wholesale fiber optic network providing reliable high speed internet access to retail internet service providers and public infrastructure stewards.

(c) Fiduciary Funds

Fiduciary funds are used to account for assets held by the Government in a trustee capacity, or as an agent for individuals, private organizations, and other governmental units. The following are the Government's fiduciary funds:

- Pension Trust Fund – The pension trust fund accounts for the activities of GERS, an independent and separate agency of the Government, responsible for the proper operation of the Government's defined benefit pension plan.

- Agency Fund – The agency fund is custodial in nature and does not involve measurement of the results of operations.

Cash and Cash Equivalents

The Government follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements and any excess is invested in various interest-bearing accounts and time deposits with eligible depository institutions. In accordance with GASB Statement No. 72, *Fair Value Measurement and Application,* carrying amounts are reported at cost which approximates the fair value of the cash and cash equivalents.

Cash equivalents of the proprietary funds and discretely presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, short-term U.S. government and its agencies' obligations, and repurchase agreements with a U.S. commercial bank maturing within three months. Cash and cash equivalents of the discretely presented component units are maintained in separate bank accounts from those of the PG, in their own names.

By law, banks, or trust companies designated as depositories of public funds of the Government are to maintain corporate surety bonds or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited. Effective October 2015, Banco Popular de Puerto Rico (Banco Popular) established an irrevocable stand-by letter of credit in the amount of $200.0 million with the Federal Home Loan Bank of New York to serve as pledged collateral for public fund depositories held at Banco Popular.

For the purpose of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, restricted cash and investments, and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and investments and restricted cash and investments.

Investments

The PG and its component units follow the provisions of GAAP which establishes and modifies the following disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

Investment policies of the PG, its blended component units, major funds, and major component units are as follows:

- *Primary Government Investment Policies* – Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations.

  As of September 30, 2016, the General Fund, the Virgin Islands Lottery, a non-major governmental fund, and an agency fund had invested in certificates of deposit with two local banks. Investments are reported at fair value at September 30, 2016.

- *PFA Investment Policies* – Investments of the PFA are reported at fair value. Various bond resolutions of the PFA restrict investments to direct obligations of the U.S. Government, territories, possessions and 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 PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. The PFA handles investments for two major governmental funds of the Government: the PFA Debt Service Fund and the PFA Capital Projects Fund.

- *Tobacco Settlement Financing Corporation Investment Policies* – Various bond resolutions of this blended component unit restrict investments to direct obligations of the U.S. Government, territories, possessions and 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. TSFC has retained investment managers and investments are held in trust by a commercial bank on behalf of the TSFC. Investments are reported at fair value in the non-major governmental fund of the Government.

- *West Indian Company Investment Policies* – This blended business-type major fund of the Government maintains an investment policy that (i) limits investments in bonds to a maximum remaining maturity of 30 years (or estimated average life on mortgage-backed issues), (ii) limits fixed income securities to a maximum of 40% and a minimum of 30% of the overall assets of the WICO portfolio, (iii) limits corporate bond exposure to 45% of the fixed income portfolio, and (iv) has no provision which limits or restricts investments in U.S. Government Treasury or Agency issues. WICO reports investments at fair value.

- *VIHA Investment Policies* – This major component unit is required by the U.S. Department of Housing and Urban Development (HUD) to invest excess funds in obligations of the United States, certificates of deposit, or any other federally insured investment. HUD requires that deposits be fully collateralized at all times, and may be held by an unaffiliated bank or trust company for the account of the VIHA.

- *WAPA and VIPA Investment Policies* – These major component units are authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the U.S. government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

- *VIGHHFC Investment Policies* – The board of trustees of this major component unit have not developed a formal investment policy. At September 30, 2016, investments consisted of a 40% interest in a U.S. Virgin Islands corporation that provides radiology services at Juan F. Luis Hospital and Medical Center. The investment in the U.S. Virgin Islands Corporation is accounted for under the equity method and was reported without value at September 30, 2016.

- *University Investment Policies* – The board of trustees of this major component unit is responsible for the management of the University's investments and establishes an investment policy, which is carried out by the Vice President for Administration and Finance. The University and the Reichhold Foundation have a formal investment policy approved by their corresponding board of trustees, which contains a requisite section on addressing risks. In fiscal year 2014, the Board passed a resolution to transfer all of the University's investments to the Foundation's investments portfolio for management and investment purposes.

- *Pension Trust Fund Investment Policies* – The board of trustees of GERS has enacted policies that limit investments in certain investment categories and provide requirements for the institutions with which investment transactions may be entered into. Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund, or exceed 1% of the outstanding stock of the corporation.

  The aggregate amount of investments in stock may not exceed 60% of the market value of total investments of GERS. Investment in foreign stock should be limited to 10% of the market value of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of GERS.

Investments in equity securities in the GERS pension trust fund are reported at quoted market values. Shares of mutual funds are reported at the net asset value of shares held by GERS at year-end. Purchases and sales are recorded on a trade-date basis. Realized gains and losses on securities are determined by the average cost method.

GERS is authorized to invest in life settlement policy contract investments provided the investment is in a group of life insurance policies, with a minimum number of 100 measured lives; the face value of any single policy investment does not exceed $5.0 million or 2% of the aggregate face value of policy investments, and; the aggregate face value on any individual life does not exceed the greater of $10.0 million or 1% of the aggregate face value of policies purchased as investments by GERS. As of September 30, 2016, GERS had invested $21.1 million in the limited partnership Attilanus, a company that purchases senior life insurance policies for individuals age 65 and older with an average life expectancy of 5 to 7 years. The partnership agreement is effective through December 31, 2017, and may be extended for an additional two-year period. Limited partners are not permitted to withdraw funds from the partnership.

On July 18, 2012, GERS executed a loan agreement with Attilanus. Under the terms of the agreement, a credit facility of $10.0 million was made available to meet on-going premium costs and other expenses. The terms of the credit facility require interest payments at a rate of 15% per annum, and principal payments reduce the future amount available. The entire loan principal and accrued and unpaid interest is to be repaid at the termination of the credit facility on July 10, 2017. As of September 30, 2016, the outstanding balance of the credit facility was $10.0 million.

On December 8, 2009, GERS executed a loan agreement with Carambola Northwest, LLC (Carambola), a condominium, hotel and golf resort on the island of St. Croix. The five year term loan in the amount of $15.0 million is collateralized with all real property holdings of Carambola, with an interest rate of 10.5% per annum. Carambola subsequently went into default on the loan agreement. On May 11, 2013, GERS exercised its rights under the loan agreement and executed a preliminary Disposition Agreement with Carambola assuming management and ownership of the resort complex. As of September 30, 2016, the complex had an appraised value of $8.0 million.

On September 24, 2013, GERS entered into a loan agreement with KAZI Foods of the Virgin Islands in the amount of $6.0 million at an interest rate of 6.25%, and a maturity date of October 23, 2023. At September 30, 2016, the outstanding principal balance on the loan is $5.4 million.

On June 30, 2014, GERS entered into a loan agreement of $8.2 million for the construction of a local grocery store on the island of St. Thomas, with repayments to begin in March, 2016. The loan was subsequently modified on May 24, 2016 to provide an increase in the principal amount of the loan up to $11.0 million and extending the maturity date to March 31, 2025. As of September 30, 2016, the outstanding balance of the loan is $10.9 million.

GERS has also invested in Havensight Mall, a shopping and pier complex on the island of St. Thomas. As of September 30, 2016, the property is reported at the fair market value of $41.0 million.

GERS owns administrative facilities on the islands of St. Thomas and St. Croix. Portions of the facilities are leased to government agencies and commercial tenants, and portions of the facilities are utilized for GERS operations. The investment is reported at historical cost, net of accumulated depreciation, in the amount of $23.2 million as of September 30, 2016.

Receivables

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes, excise taxes, hotel occupancy taxes, and real property taxes. Federal government receivables represent amounts owed to the Government for reimbursement of expenditures incurred pursuant to federally funded programs.

Accounts receivable are reported net of estimated allowances for uncollectible amounts, which are determined, based upon past collection experience and current economic conditions.

The accounts receivable from non-governmental customers of the discretely presented component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the PG and other component units that arise from service charges do not have allowances for uncollectible accounts because in the opinion of management, all accounts are collectible.

Interfund and Intra-Entity Transactions

The Government has the following types of transactions among funds:

- *Interfund Transfers* – Legally required transfers are reported as interfund transfers in (out) when incurred. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type.

- *Intra-entity Transactions* – These are transactions between the PG and its discretely presented component units, and among the component units.

Similarly, receivables and payables between the PG and its blended component units are reported as amounts due from (to) other funds. Transfers between the PG and discretely presented component units (and among those component units) are reported separately as revenue and expenses or expenditures. Amounts owed to and from discretely presented component units by the PG are reported separately from interfund payables and receivables as due from (to) component units, net of allowance for estimated uncollectible amounts.

Restricted Assets

Restricted assets in the PG and discretely presented component units are set aside primarily for the payment of bonds, notes, construction funds, unemployment benefits, and other specific purposes.

Capital Assets

Capital assets, which include land, land improvements, buildings, building improvements, machinery and equipment, construction in progress, intangibles and infrastructure assets are reported in the applicable governmental, business-type activities, and component unit columns in the government-wide financial statements as well as in the applicable proprietary funds reported in the fund financial statements.

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (i) $5,000 for personal property with a useful life of five years; (ii) $50,000 for buildings and building improvements with estimated useful lives of 40 and 20 years, respectively; (iii) $100,000 for land improvements with an estimated useful life of 20 years; (iv) $200,000 for intangibles with estimated useful lives between 2 and 15 years and (v) $200,000 for infrastructure with an estimated useful life of 30 years. All costs of acquiring land are capitalized.

Capital assets purchased or acquired are carried at historical cost or normal cost. The normal costing method to estimate cost based on replacement cost indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date was used to estimate the historical cost of certain land, buildings, and building improvements because invoices and similar documentation was no longer available in certain instances. Donated capital assets are recorded at acquisition value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business-type activities and proprietary component units. The costs of routine maintenance and repairs that do not add value to the assets or materially extend asset lives are expensed as incurred.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

Capital assets of the PG, excluding land and construction in progress, are depreciated on the straight-line method over the assets' estimated useful lives.

The estimated useful lives of capital assets reported by the component units are (i) 4 to 50 years for buildings and building improvements, (ii) 20 to 40 years for airports and marine terminals, (iii) 40 to 100 years for water transmission and distribution mains, and (iv) 3 to 25 years for vehicles and equipment.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of the net position that applies to future period(s) and is not recognized as an outflow of resources (expense/expenditure) until the future date occurs.

The Government has two items for financial reporting in these categories, as follows:

- Deferred amounts related to pension represent unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

- Deferred charges on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The Government has two items for financial reporting in this category, as follows:

- Deferred amounts related to pension consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments, changes in assumptions, and other differences between expected and actual experience.

- Modified accrual basis of accounting - Unavailable revenues qualify for reporting in this category. The item, *unavailable revenues*, is reported only in the governmental funds' balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, gross receipts taxes, and income taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Tax Refunds Payable

During the calendar year, the Government collects individual income taxes through withholdings and payments from taxpayers. As of September 30th, the Government estimates the amount owed to taxpayers for overpayments during the first nine months of the calendar year. These estimated amounts and the actual tax refunds claimed for prior years but not paid at year-end are recorded as tax refunds payable and as a reduction of tax revenue.

Compensated Absences

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement.

This vacation policy does not apply to professional educational personnel of the Virgin Islands Department of Education, who receive compensation during the school breaks. Upon retirement, an employee receives compensation for unused vacation leave at the employee's base pay rate.

Employees accumulate sick leave at a rate of four hours for each full biweekly pay period up to a maximum of 180 days. Separated employees do not receive payment for unused sick leave; therefore, a provision for accumulated sick leave is not required.

Compensated absences accumulation policies for the blended component units and discretely presented component units vary from entity to entity, depending upon negotiated bargaining agreements and other factors agreed upon between the management of these entities and its employees.

Long-term Liabilities

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, pension liabilities and other long-term liabilities including: accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post closure costs, postemployment benefit workers and compensation claims. Bond premiums, discounts, and amounts deferred on capital appreciation bonds are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and discounts. Issuance costs are reported as expenses in the year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Net Position

Net position is reported in three categories:

- *Net Investment in Capital Assets* – This consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is presented, net of the related debt, as restricted for capital projects.

- *Restricted Net Position* – Constraints placed on the use of assets are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Position* – These consist of assets which do not meet the definition of the two preceding categories. Unrestricted assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

Fund Balance

GAAP provides a hierarchy of classifications based primarily on the extent to which the Government is bound to honor constraints on the specific purposes for which amounts in funds may be spent. Following are the fund classifications:

- *Restricted Fund Balance* – Fund balances constrained by externally imposed constraints such as constitutional provisions, laws and regulations, debt covenants, and grantors. The Government's policy is to consider restricted amounts to have been spent first when expenditures are incurred for which both restricted and unassigned fund balances are available.

- *Committed Fund Balance* – Fund balances subject to constraints imposed by the Government's highest level of decision making authority including legislation enacted by the Legislature of the Virgin Islands and resolutions or ordinances enacted by Government elected regulatory boards and authorities. Committed fund balances may be modified or rescinded by enacted legislation, or amendment of resolutions or ordinances.

- *Assigned Fund Balance* – Fund balances subject to budgetary constraints of the Legislature, the Office of Management and Budget, or authorizing boards of the Government, that are not restricted or committed.

  Budgetary authority of the Office of Management and Budget is provided by Title 2, Sections 22, 23, 26 and 27 VIC, and Executive Order No. 371-1997. The Government's policy is to expend assigned or committed amounts, before unassigned amounts, when an expenditure is incurred.

- *Unassigned Fund Balance* – Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. Residual deficit of the Federal Grants Fund is also reported as unassigned fund balance.

- *Nonspendable Fund Balance* – The nonspendable fund balance classification includes amounts that cannot be spent because they are either (i) not in spendable form (such as inventories or prepaid amounts), or (ii) legally or contractually required to be maintained intact (such as a permanent endowment fund).

Risk Management

With some exceptions, the Government does not carry general casualty or liability insurance coverage on its properties or the acts of its employees, relying instead on self-insurance and/or statutory liability limitations. However, as a result of an agreement with the Federal Emergency Management Agency (FEMA), with respect to properties and structures damaged by Hurricane Hugo and repaired with federal disaster assistance funds, the Government has obtained insurance for certain hospitals, schools, and other insurable public buildings that were repaired with such federal assistance. The Government purchases commercial insurance covering physical losses or damages against its property. The limit of liability for all risks, excluding earthquake, windstorm, and flood, is $1.0 million for each and every occurrence except for windstorm and flood losses, which has a $45.0 million limit. For physical losses arising from earthquake, the insurance policy has a limit of $100.0 million for each and every occurrence and in the annual aggregate.

Adoption of Accounting Pronouncements

GASB has issued the following statements that the Government and its component units have adopted for the current year:

GASB Statement Number		Adoption in Current Fiscal Year
72	Fair Value Measurement and Application	2016
73	Accounting and Financial Reporting for Pension and Related Assets That are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68	2016
76	The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments	2016
79	Certain External Investment Pools and Pool Participants	2016
82	Pension Issues—an amendment of GASB Statements No. 67, 68 and No. 73	2016

GASB has issued the following statements that the Government or its component units have not yet adopted. The Government is currently evaluating the impact of these statements.

GASB Statement Number		Adoption in Future Fiscal Year
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
77	Tax Abatement Disclosures	2017
78	Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans	2017
80	Blending Requirements for Certain Component Units—an Amendment of GASB Statement No.14	2017
81	Irrevocable Split-Interest Agreements	2018
83	Certain Asset Retirement Obligations	2019
84	Fiduciary Activities	2020
85	Omnibus 2017	2018
86	Certain Debt Extinguishment Issues	2018

2. Component Units

The basic financial statements include the financial statements of the following discretely presented component units:

- Virgin Islands Housing Authority
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- University of the Virgin Islands (unaudited)
- Virgin Islands Economic Development Authority
- Magens Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Broadcasting System
- Virgin Islands Waste Management Authority
- University of the Virgin Islands Research and Technology Park Corporation (unaudited)

Condensed financial information as of September 30, 2016, of all discretely presented component units follows (expressed in thousands):

	Virgin Islands Housing Authority	Virgin Islands Port Authority	Virgin Islands Water and Power Authority: Electric System	Virgin Islands Water and Power Authority: Water System	Hospital and Health Facilities Corporation: Roy L. Schneider Hospital	Hospital and Health Facilities Corporation: Juan F. Luis Hospital	University of the Virgin Islands (Unaudited)	Other Component Units*	Total Component Units
Assets and deferred outflows									
Current assets	$ 30,411	$ 26,890	$ 70,121	$ 8,550	$ 14,520	$ 19,666	$ 10,599	$ 19,371	$ 200,128
Due from primary government	-	-	32,415	5,895	-	-	364	5,659	44,333
Due from federal government	1,564	2,095	-	–	1,000	-	3,048	1,065	8,772
Restricted assets	875	35,622	55,959	9,663	436	100	61,443	59,060	223,158
Capital assets, net	65,964	236,968	321,517	62,476	49,772	36,248	73,593	171,422	1,017,960
Other noncurrent assets	6,518	600	17,982	-	297	-	11,166	41,156	77,719
Deferred outflows of resources	21,133	42,882	77,929	15,961	41,202	30,962	26,743	27,016	283,828
Total assets and deferred outflows of resources	126,465	345,057	575,923	102,545	107,227	86,976	186,956	324,749	1,855,898
Liabilities and deferred inflows									
Current liabilities	5,632	15,699	171,538	10,752	41,679	63,041	12,611	31,179	352,133
Due to primary government	-	-	-	–	4,145	-	–	–	4,145
Due to federal government	-	-	4,142	–	-	725	–	–	4,867
Due to component units	-	-	-	8,250	-	-	-	52	8,302
Bonds payable	-	45,356	231,810	3,643	-	-	-	–	280,809
Notes payable	435	-	-	–	–	-	76,737	5,330	82,502
Other noncurrent liabilities	12,510	1,529	56,625	9,722	–	-	3,241	10,299	93,926
Unearned income	-	-	-	–	–	–	-	5,891	5,891
Pension liabilities	73,255	137,122	258,982	53,045	154,227	109,708	85,272	101,026	972,637
Deferred inflows of resources	1,236	1,538	15,932	3,263	7,953	8,552	(407)	437	38,504
Total liabilities and deferred inflows of resources	93,068	201,244	739,029	88,675	208,004	182,026	177,454	154,216	1,843,716
Net position (deficit):									
Net investment in capital assets	61,997	214,411	189,945	56,534	49,772	35,697	5,109	155,171	768,636
Restricted	7,307	36,222	52,859	8,922	436	100	(2,590)	70,516	173,772
Unrestricted (deficit)	(35,907)	(106,820)	(405,910)	(51,586)	(150,985)	(130,847)	6,983	(55,154)	(930,226)
Total net position (deficit)	$ 33,397	$ 143,813	$ (163,106)	$ 13,870	$ (100,777)	$ (95,050)	$ 9,502	$ 170,533	$ 12,182

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

Information on Statement of Activities	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions	Total Component Units
Virgin Islands Port Authority	$ 73,741	$ 54,796	$ –	$ 5,001	$ (13,944)
Virgin Islands Housing Authority	52,956	5,009	42,565	3,078	(2,304)
Virgin Islands Water and Power Authority:					
Electric System	255,116	224,310	–	4,359	(26,447)
Water System	33,671	31,278	–	1,499	(894)
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	96,264	51,125	31,456	1,474	(12,209)
Juan F. Luis Hospital	84,963	57,239	28,326	-	602
University of the Virgin Islands (unaudited)	87,892	52,882	21,055	4,692	(9,263)
Other component units*	72,615	12,990	49,824	5,447	(4,354)
Total activities	$ 757,218	$ 489,629	$ 173,226	$ 25,550	(68,813)
General revenue:					
Interest and other					20,961
Changes in net position					(47,852)
Net position, beginning of year (as restated)					60,034
Net position (deficit), end of year					$ 12,182

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

The due to component units of $20.6 million and due from component units of $4.1 million as reported in the government-wide statement of net position differ due to the difference in fiscal year ends for WAPA (June 30) and VIHA (December 31).

3. Cash and Cash Equivalents

Primary Government

At September 30, 2016, the PG reported $143.1 million in unrestricted cash and cash equivalents, and $7.0 million in restricted cash and cash equivalents. All of the PG's bank balances were fully collateralized.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2016, GERS held $43.2 million in cash and cash equivalents consisting of: $28.1 million in money market accounts and $15.1 million in operational accounts.

Component Units

At September 30, 2016, discretely presented component units held $81.8 million in unrestricted cash and cash equivalents and $92.9 million in restricted cash and cash equivalents.

4. Investments

Fair Value Measurements

The Government categorizes the fair market measurements of its investments within the fair value hierarchy established by GAAP. The *Fair Value Measurement and Application*, provides the framework for measuring fair value by establishing a three-level fair value hierarchy that describes inputs that are used to measure assets and liabilities as follows:

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

Level 2: Inputs are other than quotes prices included within Level 1 that are observable for an asset or liability, that are either directly or indirectly observable.

Level 3: Inputs are significant unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 and the lowest priority to Level 3 inputs. If a price for an identical asset is not observable, a government may evaluate fair market value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset is measured using inputs from more than one level of the fair market value hierarchy, the measurement is considered to be based on the lowest level input that is significant to the entire measurement.

The following section describes the valuation technique methodologies the Government is using to measure assets at fair value:

Level 1: Investments classified within Level 1 are valued based on quotes obtained from active public exchanges or reported on the national market, and are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices.

Level 2: Investments classified within Level 2 are valued by pricing vendors using outside data. In determining the fair value of the investments, the pricing vendors use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. The commercial paper and letter of credit are classified as Level 2 instruments as their fair value is based on quoted values stated by the bank's mark-to-market estimate using a stated fixed rate. The interest rate is observable at commonly quoted indexes for the full term of the instruments.

Level 3: Investments in limited partnerships and private debt/direct lending are classified within Level 3 of the fair value hierarchy. Given the absence of market quotations, fair value is estimated using the information provided by the investment managers or general partners. The values are based on estimates that require varying degrees of judgment and, for the fund of funds investments, are primarily based on financial data supplied by the investment managers of the underlying funds.

Individual holdings within alternative investments may include instruments in both nonmarketable and market-traded securities. Nonmarketable securities may include equity in private companies, real estate, thinly traded securities, and other investment vehicles. While these financial instruments contain varying degrees of risk, the Government's exposure with respect to each such investment is limited to its carrying amount (fair value as described above).

Assets using net asset value per share as fair value are not required to be categorized using the fair value hierarchy levels.

Primary Government

Following are the investments of the PG categorized within the three-level fair value hierarchy:

		(in thousands)		
	September 30, 2016	Level 1	Level 2	Level 3
Certificates of deposit	$ 18,076	$ 18,076	$	$ –
Money market mutual funds	553,821	553,821	-	–
Portfolio investments:				
Commercial paper	39,197	–	39,197	–
Letter of credit	650	–	650	–
Subtotal	$ 611,744	$ 571,897	$ 39,847	$ –
Investments, at cost:				
Others	23			
Total	$ 611,767			

Following is a summary of the investments of the PG categorized by investment type and weighted average maturity, as of September 30, 2016 (expressed in thousands):

		Maturity (in years)		
	Fair Value	Less Than 1 Year	1 to 5 Years	Over 5 Years
Investments with contractual maturities				
Certificates of deposit	$ 18,076	$ 18,076	$ -	$ -
Portfolio investments				
Commercial paper	39,197	39,161	-	36
Other	673	673	-	-
Total investments with contractual maturities	57,946	$ 57,910	$	$ 36
Investments without contractual maturities				
Money market & mutual funds	553,821			
Total	$ 611,767			

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The PG 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, virtually all investments held by the PG are short-term in nature.

Credit Risk – The authorizing legislation of the PG does not limit investments by credit rating categories. Authorizing legislation does limit the investment choices of the PG 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 deposit, guaranteed investment contracts, shares in mutual funds, investment companies, corporate commercial paper, money market portfolio investments, and investment pools.

At September 30, 2016, the PG's investments in money market funds were rated AAAm by Standard & Poor's, and Aaa-mf and Aaa- by Moody's Investor Service. The PG's investments in commercial securities were rated A-1 by Standard & Poor's and P-1 by Moody's Investor Services.

Concentration of Credit Risk – The PG places no limit on the amount that may be invested in one issuer. At September 30, 2016, more than 5% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (46.9%), Federated Government Obligation #5 (33.4%), Invesco Treasury #1931 (8.7%), and Chesham FNC, LLC, CPDs (6.4%).

Custodial Credit Risk – The PG does not have a custodial risk policy. The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, the PG will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. At September 30, 2016, $596.1 million of investments were held in the name of the Bank of New York Trust Company, N.A, as trustee for the Government.

Pension Trust Fund

Following are the investments of the Pension Trust Fund categorized within the three-level fair value hierarchy:

	September 30, 2016	*(in thousands)* Level 1	Level 2	Level 3
Equity securities:				
Consumer goods	$ 27,471	$ 27,471	$ -	$ –
Energy	5,745	5,745	-	-
Financial	26,145	26,145	-	-
Health care	20,528	20,528	-	-
Industrial	24,714	24,714	-	-
Information technology	28,098	28,098	-	-
Materials	4,685	4,685	-	-
Real estate/construction	3,136	3,136	-	-
Telecommunication services	3,161	3,161	-	-
Utilities	2,597	2,597	-	–
Debt securities:				
Government agency obligations	15,451	-	15,451	-
Municipal obligations	2,320	-	2,320	-
Corporate bond	23,465	-	23,465	-
Asset-backed securities	5,266	-	5,266	-
Collateralized mortgage obligations	436	-	436	-
Commercial mortgaged-backed securities	5,643	-	5,643	-
Residential mortgaged-backed securities	18,424	-	18,424	-
Limited partnerships:				
Senior life settlement	21,123	-	-	21,123
Private equity-fund of funds	19,056	-	-	19,056
Real estate/other real assets	72,269	-	-	72,269
Private debt/direct lending	159,595	-	-	159,595
Subtotal	489,328	$ 146,280	$ 71,005	$ 272,043
Investments, at cost:				
Short-term investments	43,261			
Investments measured at net asset value (NAV):				
Commingled equity funds	215,296			
Commingled bond funds	170,648			
Securities lending collateral fund	24,032			
Total	$ 942,565			

Pension trust funds investments which are measured at NAV per share, or equivalent are presented in the table below:

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Investments measured at net asset value (NAV):				
Commingled equity funds	$ 215,296	$ -	Daily, Semi-monthly	1 – 15
Commingled bond funds	170,648	-	Daily	2 – 10 days
Securities lending collateral fund	24,032	-	Daily	None
Total	$ 409,976	$ -		

Following is a summary of the investments of the pension trust fund, categorized by investment type and weighted average maturity, as of September 30, 2016 (expressed in thousands):

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years	No Stated Maturity
Investments with contractual maturities						
U.S. government and agency obligations	$ 1,075	$ –	$ 601	$ 474	$ –	$ –
U.S. Treasury notes	8,491	3,536	3,419	1,536	–	–
U.S. Treasury bonds	5,886	-	1,876	–	4,010	–
Municipals	2,319	-	133	337	1,849	–
Mutual funds	385,944	-	–	–	–	385,944
Corporate obligations	23,465	368	7,137	8,024	7,936	–
Mortgage and asset backed securities	29,769	-	4,151	2,026	23,592	–
Investment loan	31,374	15,000	-	16,374	–	–
Total investments with contractual maturities	488,323	$ 18,904	$ 17,317	$ 28,771	$ 37,387	$ 385,944
Investments without contractual maturities						
Equity securities:						
Common stocks - U.S.	143,554					
Real estate investments:						
Real estate investment trusts	2,726					
Havensight Mall - U.S. Virgin Islands	41,000					
Renaissance Carambola Beach Resort	8,000					
GERS Complex - U.S. Virgin Islands	23,269					
Limited partnerships	40,179					
Securities lending short-term collateral investment pool	24,032					
Total	$ 771,083					

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. GERS does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon, and geography.

Investment managers retained by GERS follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from GERS' board of trustees.

Credit Risk – GERS investment policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by statute, subject to certain additional limitations.

These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. GERS investment policy allows investments in mortgage pass-through securities.

The credit ratings of GERS debt and equity securities at September 30, 2016 (expressed in thousands) include:

	Amount	Rating
U.S. government and agency obligations	$ 1,075	AAA
U.S. Treasury bonds	5,886	AAA
U.S. Treasury notes	8,491	AAA
Corporate obligations	647	AAA
Corporate obligations	385	AA1
Corporate obligations	657	AA2
Corporate obligations	2,060	A1
Corporate obligations	1,862	A2
Corporate obligations	3,851	A3
Corporate obligations	8,247	BAA
Corporate obligations	3,536	BAA2
Corporate obligations	2,167	BAA3
Corporate obligations	53	Not Available
Municipals	869	AAA
Municipals	337	AA1
Municipals	569	AA2
Municipals	544	AA3
Mortgage and asset backed securities	25,896	AAA
Mortgage and asset backed securities	2,688	Not Available
Mortgage and asset backed securities	1,185	Not Rated
Common stocks - U.S.	143,554	Not Rated
Real estate investment trust	2,726	Not Rated
Real estate holdings – U.S. Virgin Islands	72,269	Not Rated
Investment loans	31,374	Not Rated
Limited partnership	40,179	Not Rated
Securities lending short-term collateral investment pool	24,032	Not Rated
Mutual funds	385,944	Not Available
Total	$ 771,083	

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of GERS' investments in a single issuer of securities. GERS' investment policy establishes limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk. There are no investments in any one issuer that represent 5% or more of total investments.

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party.

The entire investment portfolio of GERS was held with a single third-party custodian as of September 30, 2016. At September 30, 2016, GERS had no underlying securities on loan secured by noncash collateral. Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

Foreign Currency Risk – Foreign currency risk is the risk of holding investments in foreign currencies and the risk that those foreign currencies may devalue. GERS has no general investment policy with respect to foreign currency risk. As of September 30, 2016, all foreign investments were repatriated to other funds.

Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded with interest, dividends, and other income or losses reported at fair value. During the fiscal year ended September 30, 2016, GERS did not engage in any forward currency exchange contracts.

Securities Lending Transactions – The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of a loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2016 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement, the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were no such violations during fiscal year 2016, or losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the loaned securities, (ii) in the case of loaned securities which are not denominated in U.S. dollars or whose primary trading market is not located in the United States, have a market value of 105% of the market value of the loaned securities, or (iii) have a higher value as may be applicable in the jurisdiction in which the loaned securities are customarily traded. Such collateral should be kept, at a minimum, at 100% of the market value of the security for all borrowers throughout the outstanding period of the loans.

At September 30, 2016, approximately $31.4 million of U.S. government and agency securities, fixed income, and equity corporate securities were on loan. The cash collateral received with a corresponding liability of an equal amount is recorded in the statement of fiduciary net position. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2016, such investment pool had a weighted average maturity of 39 days and an average expected maturity of 78 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

Component Units

Following are the investments of the discretely presented component units categorized within the three-level fair value hierarchy:

	September 30, 2016	Level 1	Level 2	Level 3
		(in thousands)		
Investments, at fair value:				
Common stocks*	$ 10,257	$ 10,257	$ -	$ -
Corporate bonds*	3,628	-	3,628	-
Mutual funds*	717	717	-	-
Derivative instruments	9,825	-	9,825	-
Subtotal	24,427	$ 10,974	$ 13,453	$ -
Investments, at cost:				
Certificate of deposits	8,905			
Money market securities	45,281			
Investments measured at net asset value (NAV):				
Alternative investments*	53,270			
Total	$ 131,883			

**University of the Virgin Islands (unaudited)*

Following is a summary of the investments of the discretely presented component units, categorized by investment type and weighted average maturity, as of September 30, 2016 (expressed in thousands):

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	6 to 10 Years	More than 10 Years
Investments with contractual maturities					
Certificates of deposit	$ 8,905	$ 7,196	$ 1,109	$ -	$ 600
Corporate bonds	30	30	-	–	-
Total investments with contractual maturities	8,935	$ 7,226	$ 1,109	$	$ 600
Investments without contractual maturities					
Money market securities	45,281				
Common stock*	10,257				
Mutual funds*	717				
Corporate bonds*	3,598				
Other investments*	63,095				
Total	$ 131,883				

**University of the Virgin Islands (unaudited)*

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The component units of the Government have not established formal policies which limit investment maturities as a means of managing such exposure and have some exposure to interest rate risk.

Credit Risk and Concentration of Credit Risk – The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the component units, as described in Note 1.

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, the component units will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. The component units of the Government do not have custodial credit risk policies.

5. Receivables

Primary Government

Receivables for governmental funds at September 30, 2016, consist of the following (expressed in thousands):

	General	PFA Debt Service	Other Governmental	Total
Income taxes	$ 229,527	$ –	$ –	$ 229,527
Real property taxes	129,476	–	–	129,476
Hotel occupancy taxes	4,221	–	–	4,221
Excise taxes	34,629	-	–	34,629
Gross receipts taxes	-	202,436	-	202,436
Gross receivables	397,853	202,436	-	600,289
Less allowance for doubtful accounts	(232,278)	(153,494)	-	(385,772)
Taxes receivables, net	165,575	48,942	-	214,517
Other	62	–	116	178
Tobacco settlement rights and other (unaudited)				1,617
Total				$ 216,312

(a) Tax Receivables

The Naval Appropriations Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code of 1986, as amended. Income taxes are due from every corporation, partnership, individual, association, estate, or trust that meets the filing requirements of the U.S. Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies his Virgin Islands income tax obligations by filing his return with and paying income taxes to the Government. Bona fide residents of the Virgin Islands are taxed by the Virgin Islands on their world-wide income. A nonresident of the U.S. Virgin Islands pays income taxes on his U.S. Virgin Islands source income to the Government.

The revenue is recognized in the general fund in the fiscal period for which the income tax return was filed. The revenue from income tax withholding and estimated payments are recognized in the general fund as collected, net of estimated tax refunds.

Subchapter S corporate income tax returns are due by the 15 day of the third month following the close of the calendar year, and become delinquent if not paid on or before the due date. Subchapter C corporate income tax returns are due by the 15 day of the fourth month following the close of the calendar year, and become delinquent if not paid on or before the due date.

Partnership income taxes are due by March 15 of the following year and trust income taxes are due by April 15 of the following year for which the income tax was levied. Trust income taxes must be paid by the tax filing date.

Property taxes are assessed each calendar year on all taxable real property located in the U.S. Virgin Islands. The receivable is recognized, net of estimated uncollectable amounts, in the general fund in the fiscal period for which the tax is assessed.

The revenue is recognized in the general fund in the fiscal period for which the property tax is levied, provided the tax is collected within 60 days subsequent to fiscal year-end, unless the facts justify a period greater than 60 days. Receivables collected after that period, are recorded as unavailable property tax revenue.

The Office of the Tax Assessor is responsible for the assessment of all taxable real property. Noncommercial real property subject to taxation is reassessed once every five years and commercial real property subject to taxation is reassessed biannually. The Tax Assessor prepares an annual assessment roll and schedule of collections for each parcel of real property that is used by The Office of the Tax Collector, as the basis for issuing tax bills to all taxpayers in the U.S. Virgin Islands.

Property taxes are to be levied by May 15 of each year in the name of the record owner on January 15 of the same year. The taxes are due on June 30 and become delinquent if not paid by August 31.

For businesses with gross receipts of $225,000 per annum or less, gross receipts taxes are levied on an annual basis based on the amount of gross receipts in excess of $9,000 per month. Businesses with annual gross receipts of more than $225,000 are levied on a monthly basis, based on all gross receipts, with no $9,000 per month exemption. The current gross receipts tax rate is 5.0%.

Monthly gross receipts tax filings are due within 30 calendar days following the last day of the calendar month collected. Annual gross receipts tax filings are due within 30 calendar days following the last day of the calendar year.

(b) Other Receivables

In addition to tax receivables, the PG receives tobacco settlement right payments in connection with a Master Settlement Agreement entered into with certain participating cigarette manufacturers. Under the terms of the agreement, the U.S. Virgin Islands receives .0173593% of annual payments made under the agreement. As of September 30, 2016, the PG reported a receivable of $1.6 million for tobacco settlement right payments.

On November 14, 2011, the PG entered into a loan agreement on behalf of GERS in the amount of $13.0 million, at an interest rate of 4.91% and a maturity date of December 15, 2016. The security for the loan was pledged property tax receipts for tax years prior to, and including, 2005. At September 30, 2016, the outstanding balance of the loan was $5.0 million, and pledged property tax receipts were sufficient to meet debt service payments.

Component Units and Pension Trust Fund

Receivables for the discretely presented component units and the pension trust fund at September 30, 2016, consist of the following (expressed in thousands):

Utility service charges	$ 17,124
Port fees	3,938
Students*	2,610
Patients	23,758
Other**	6,076
Total	$ 53,506

**University of the Virgin Islands (unaudited)*

***University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

6. Unavailable Revenues

The components of unavailable revenues of the general fund and PFA debt service fund as of September 30, 2016, consist of the following (expressed in thousands):

	General Fund	PFA Debt Service
Property taxes	$ 24,688	$ -
Income taxes	72,446	-
Gross receipts taxes	-	39,095
Total	$ 97,134	$ 39,095

7. Interfund Transfers

Interfund transfers for the year ended September 30, 2016, consist of the following (expressed in thousands):

Transfers from/to	General	PFA Debt Service	Other Governmental	Total
General	$ –	$ 92,572	$ 700	$ 93,272
PFA Debt Service	151	–	-	151
Other governmental	14,292	101	-	14,393
Other business-type	2,000	–	-	2,000
Total	$ 16,443	$ 92,673	$ 700	$ 109,816

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfer to the General Fund from Other Governmental Funds included a $92.5 million transfer from the PFA Debt Service Fund (a major governmental fund) representing gross receipt tax revenue in excess of bond debt service requirements.

Significant transfers made from the General Fund include a transfer of $11.0 million to the District Street Lighting Fund (a non-major governmental fund), $1.0 million to the Bureau of Motor Vehicles Fund (a non-major business-type fund), $1.0 million to the Agriculture Fund (a non-major business-type fund), $2.0 million to the St. Croix Capital Improvement Fund (a non-major governmental fund), and a transfer of $1.0 million to the Crisis Intervention Fund (a non-major governmental fund).

Due From/To Other Funds

Due from/to other funds	General	PFA Capital Projects	Other Governmental	Other Business Type	Total
General	$ –	$ –	$ 22,528	$ 300	$ 22,828
Other governmental	17,500	–	–	–	17,500
Total Governmental Funds	17,500	–	22,528	300	40,328
West Indian Company	6,650	–	-	-	6,650
viNGN	-	36,651	-	-	36,651
Other enterprise	200	324	2,219	–	2,743
Total Proprietary Funds	6,850	36,975	2,219	-	46,044
Total	$ 24,350	$ 36,975	$ 24,747	$ 300	$ 86,372

The due from/to other funds includes the following amounts due from the General Fund: $4.9 million due to the Emergency Molasses Fund (a non-major governmental fund) for unpaid appropriations, $3.5 million due to the PFA special revenue fund for unpaid matching funds, and $1.4 million due to the Elected Governor Retirement Fund.

The due to general fund is mainly composed of $14.3 million due from the District Street Lighting Fund (a non-major governmental fund) and $2.7 million owed from the bond proceeds fund (a non-major governmental fund) to the General Fund.

The due to other governmental funds includes $12.0 million due to the St. Croix Capital Improvement Fund from the general fund for capital improvement projects, $908 thousand due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund and $991 thousand due from the Virgin Islands Lottery to the Virgin Islands Educational Initiative Fund consisting primarily of 15% of revenue derived from lottery games under contract between the Virgin Islands Lottery and private contractors be transferred to these funds.

Contributions from the Virgin Islands Lottery (a non-major enterprise fund) represent contributions to the Virgin Islands Educational Initiative Fund of $991 thousand and to the Pharmaceutical Assistance to the Aged Fund of $908 thousand.

The due to PFA Capital Projects funds includes $36.6 million due from the Virgin Islands Next Generation Network (viNGN), a major business-type fund in connection with start-up costs in connection with the broadband project.

8. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2016, include cash and cash equivalents as follows (expressed in thousands):

Unemployment insurance funds	$ 4,044
WICO debt service funds	2,974
Total	$ 7,018

Component Units

Restricted assets of discretely presented component units as of September 30, 2016, include cash and cash equivalents, investments, and receivables as follows (expressed in thousands):

Cash and cash equivalents:	
Debt service and sinking fund requirements	$ 32,007
Endowment funds*	152
HUD project funds	875
Revolving loan funds	27,962
Construction funds	22,092
Renewal and replacement funds	1,265
Other	8,501
Total	92,854
Investments:	
Debt service and sinking fund requirements	26,738
Construction funds	2,788
Endowment funds*	56,840
Renewal and replacement funds	15,234
Revolving loan funds	7,332
Other	520
Total	109,452
Other:	
Pledged funds	20,852
Total	$ 223,158

**University of the Virgin Islands balance (unaudited)*

9. Capital Assets

Primary Government

Capital assets activity for governmental activities for the year ended September 30, 2016, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers/ Adjustment	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 195,246	$ 32,312	$ -	$ -	$ 227,558
Construction in progress	70,279	24,580	(35,964)	(3,250)	55,645
Total capital assets not being depreciated	265,525	56,892	(35,964)	(3,250)	283,203
Capital assets being amortized and depreciated:					
Land improvements	7,040	785	-	-	7,825
Infrastructure	313,472	1,126	22,997	-	337,595
Buildings and improvements	500,764	27,989	12,825	-	541,578
Machinery and equipment	191,610	5,801	142	(112)	197,441
Total capital assets being amortized and depreciated	1,012,886	35,701	35,964	(112)	1,084,439
Less accumulated amortization and depreciation for:					
Land improvements	(4,373)	(266)	-	-	(4,639)
Infrastructure	(94,802)	(10,851)	-	-	(105,653)
Buildings and improvements	(227,966)	(16,738)	-	426	(244,278)
Machinery and equipment	(152,693)	(11,190)	-	64	(163,819)
Total accumulated amortization and depreciation	(479,834)	(39,045)	-	490	(518,389)
Total capital assets being amortized and depreciated, net	533,052	(3,344)	35,964	378	566,050
Governmental activities capital assets, net	$ 798,577	$ 53,548	$ -	$ (2,872)	$ 849,253

Capital assets activity for business-type activities for the year ended September 30, 2016, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 5,178	$ -	$ -	$ –	$ 5,178
Construction in progress	5,113	4,956	(1,878)	-	8,191
Total capital assets not being depreciated	10,291	4,956	(1,878)	-	13,369
Capital assets being depreciated:					
Land improvements	348	-	–	–	348
Buildings and improvements	79,414	92	-	–	79,506
Machinery and equipment	76,130	1,127	1,878	-	79,135
Intangibles	20,974	-	-	–	20,974
Total capital assets being amortized and depreciated	176,866	1,219	1,878	-	179,963
Less accumulated amortization and depreciation for:					
Land improvements	(342)	-	-	–	(342)
Buildings and improvements	(35,355)	(3,496)	(53)	–	(38,904)
Machinery and equipment	(15,984)	(4,990)	(1,527)	-	(22,501)
Intangibles	(3,591)	(753)	1,580	–	(2,764)
Total accumulated amortization and depreciation	(55,272)	(9,239)	-	-	(64,511)
Total capital assets being amortized and depreciated, net	121,594	(8,020)	1,878	-	115,452
Business-type activities capital assets, net	$ 131,885	$ (3,064)	$ -	$ -	$ 128,821

Depreciation and amortization expense is charged to functions of the PG for the year ended September 30, 2016, as follows (expressed in thousands):

Governmental activities:	
General government	$ 16,797
Public safety	1,576
Health	1,653
Education	5,549
Public housing and welfare	441
Culture and recreation	556
Transportation and communication	12,473
Total	$ 39,045

Business-type activities:	
WICO – depreciation	$ 3,037
viNGN - depreciation	4,949
Other enterprise funds	1,253
Total	$ 9,239

Component Units

Capital assets activity for discretely presented component units for the year ended September 30, 2016, is summarized as follows (expressed in thousands):

	Beginning Balance (as restated)	Additions	Transfers	Disposals	Ending Balance*
Capital assets not being depreciated:					
Land	$ 105,095	$ 1,170	$ 2,074	$ -	$ 108,339
Construction in progress	103,600	38,955	(46,414)	(3,343)	92,798
Total capital assets not being depreciated	208,695	40,125	(44,340)	(3,343)	201,137
Capital assets being depreciated:					
Buildings and improvements	1,851,967	18,081	25,266	(88,656)	1,806,658
Airport and marine terminal facilities	155,140	-	15,821	-	170,961
Personal property and equipment	154,317	9,701	2,950	(363)	166,605
Intangible assets	2,919	-	-	-	2,919
Total capital assets being amortized and depreciated	2,164,343	27,782	44,037	(89,019)	2,147,143
Less accumulated amortization and depreciation for:					
Buildings and improvements	(1,109,746)	(51,241)	-	76,354	(1,084,633)
Airport and marine terminal facilities	(126,065)	(5,022)	-	-	(131,087)
Personal property and equipment	(104,328)	(8,679)	-	429	(112,578)
Intangible assets	(1,827)	(195)	-	-	(2,022)
Total accumulated amortization and depreciation	(1,341,966)	(65,137)	-	76,783	(1,330,320)
Total capital assets being amortized and depreciated, net	822,377	(37,355)	44,037	(12,236)	816,823
Component unit capital assets, net	$ 1,031,072	$ 2,770	$ (303)	$ (15,579)	$ 1,017,960

**University of the Virgin Islands and University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

Depreciation expense charged by each component unit for the year ended September 30, 2016, is as follows (expressed in thousands):

Virgin Islands Housing Authority	$ 7,219
Virgin Islands Port Authority	17,587
Virgin Islands Water and Power Authority:	
Electric System	17,554
Water System	3,144
Virgin Islands Government Hospital and Health Facilities Corporation:	
Roy L. Schneider Hospital	3,673
Juan F. Luis Hospital	5,139
University of the Virgin Islands (unaudited)	2,950
Other component units*	7,871
Total	$ 65,137

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

10. Long-Term Liabilities

Primary Government

The change in long-term bonds and loans for governmental activities is as follows for the year ended September 30, 2016 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Matching (Excise Tax) Bonds						
2013 Series B Revenue and Refunding Bonds	$ 51,365	$ -	$ 5,070	$ 46,295	$ 5,250	$ 41,045
2013 Series A Revenue and Refunding Bonds	36,000	-	2,210	33,790	2,320	31,470
2012 Series A Revenue Bonds	141,840	-	825	141,015	850	140,165
2010 Series A & B Revenue Bonds	392,840	-	2,270	390,570	2,395	388,175
2009 Series A Revenue Bonds (Cruzan)	36,245	-	670	35,575	705	34,870
2009 Series A1, A2, B & C Revenue and Refunding Bonds	344,770	-	27,955	316,815	29,260	287,555
2009 Series A Revenue Bonds (Diageo)	241,670	-	4,575	237,095	4,890	232,205
Total	1,244,730	-	43,575	1,201,155	45,670	1,155,485
Gross Receipts Tax Bonds						
2014 Series D Revenue Bonds	5,765	-	165	5,600	175	5,425
2014 Series C Revenue and Refunding Bonds	247,050	-	4,555	242,495	4,995	237,500
2014 Series A Revenue Bonds	49,640	-	1,480	48,160	1,560	46,600
2012 Series A & B Revenue and Refunding Bonds	206,900	-	12,400	194,500	12,780	181,720
2012 Series C Revenue Bonds	33,445	-	1,720	31,725	1,775	29,950
2006 Series A Revenue Bonds	202,955	-	3,125	199,830	3,240	196,590
Total	745,755	-	23,445	722,310	24,525	697,785

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Tobacco Settlement Bonds (unaudited)						
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	7,290	-	-	7,290	-	7,290
2001 Series A Tobacco Bonds	9,520	-	1,675	7,845	-	7,845
Total	16,810	-	1,675	15,135	-	15,135
Federal Highway Bonds						
2015 Bonds	-	89,880	4,465	85,415	3,335	82,080
Total bonds payable	2,007,295	89,880	73,160	2,024,015	73,530	1,950,485
Plus (less):						
Bonds premium	52,403	11,476	6,080	57,799	-	57,799
Bonds discount	(2,913)	-	(221)	(2,692)	-	(2,692)
Bonds accretion	6,153	900	-	7,053	7,053	-
Total bonds payable, net	2,062,938	102,256	79,019	2,086,175	80,583	2,005,592
Loans						
Series 2015A Note	40,000	-	40,000	-	-	-
Series 2014E Note	40,000	20,000	60,000	-	-	-
Series 2014B Note	12,000	-	2,000	10,000	2,000	8,000
Series 2013A Note	2,515	1,270	1,585	2,200	1,347	853
Series 2012A Note	13,019	-	275	12,744	295	12,449
Series 2011B Note	5,816	-	819	4,997	4,997	-
Total loans payable	113,350	21,270	104,679	29,941	8,639	21,302
Total governmental activities bonds and loans payable	$ 2,176,288	$ 123,526	$ 183,698	$ 2,116,116	$ 89,222	$ 2,026,894

The change in other long-term liabilities for governmental activities is as follows for the year ended September 30, 2016 (expressed in thousands):

	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Due Within One Year**	**Due Thereafter**
Accrued compensated absences	$ 32,198	$ 1,326	$ -	$ 33,524	$ 5,122	$ 28,402
Retroactive union arbitration	195,286	-	-	195,286	-	195,286
Litigation	23,799	4,984	15,000	13,783	128	13,655
Landfill closure and post closure costs	83,553	7,479	74	90,958	-	90,958
Post-employment benefits	357,224	-	-	357,224	-	357,224
Total	$ 692,060	$ 13,789	$ 15,074	$ 690,775	$ 5,250	$ 685,525

Accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post-closure costs, and post-employment benefits to retirees such as health insurance, are generally expected to be liquidated with resources derived from the general fund.

At September 30, 2016, the primary government reported a net pension liability of $3.1 billion for its proportionate share of the net defined benefit pension liability administered by GERS. The net pension liability is valued as of September 30, 2015, determined by an actuarial valuation as of that date. The change in pension liabilities for governmental activities is as follows for the year ended September 30, 2016 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Net pension liability	$ 2,323,163	$ 806,811	$ 64,357	$ 3,065,617	$ -	$ 3,065,617

The changes in long-term liabilities for business-type activities are as follows for the year ended September 30, 2016 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Workers compensation claims	$ 32,053	$ 10,921	$ 4,515	$ 38,459	$ 783	$ 37,676
Loan payable – U.S. Treasury	72,196	-	3,031	69,165	69,165	-
Note payable – WICO	31,878	834	531	32,181	709	31,472
Total	$ 136,127	$ 11,755	$ 8,077	$ 139,805	$ 70,657	$ 69,148

Debt Margin

Pursuant to 48 U.S.C. Section 1574(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. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is in excess of 10% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. 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 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for the purpose of financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b).

On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds.

As used in Title 2 of the V.I. Code Section 256, the term “debt” means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term “debt” does not include that portion of principal or interest on bonds that is not yet due and payable.

(a) Bonds Payable

Bonds payable outstanding at September 30, 2016, are comprised of the following (expressed in thousands):

	Maturity	Interest Rate (%)	Balance
Matching (Excise) Tax Bonds			
2013 Series B Revenue and Refunding Bonds	2018 - 2024	3.00 - 5.00	$ 46,295
2013 Series A Revenue and Refunding Bonds	2018 - 2024	5.00 - 5.25	33,790
2012 Series A Revenue Bonds	2022 - 2032	4.00 - 5.00	141,015
2010 Series A & B Revenue Bonds	2012 - 2029	4.00 - 5.25	390,570
2009 Series A Revenue Bonds (Cruzan)	2010 - 2039	3.00 - 6.00	35,575
2009 Series A1, A2, B & C Revenue and Refunding Bonds	2010 - 2039	3.00 - 5.00	316,815
2009 Series A Revenue Bonds (Diageo)	2013 - 2037	6.00 - 6.75	237,095
Total			1,201,155
Gross Receipts Tax Bonds			
2014 Series D Revenue Bonds	2015 - 2033	6.03	5,600
2014 Series C Revenue and Refunding Bonds	2015 - 2044	4.50 – 5.00	242,495
2014 Series A Revenue Bonds	2015 - 2034	5.00	48,160
2012 Series A & B Revenue and Refunding Bonds	2017 - 2032	2.25 - 5.25	194,500
2012 Series C Revenue Bonds	2017 - 2042	3.00 - 5.00	31,725
2006 Series A Revenue Bonds	2007 - 2029	3.50 - 5.00	199,830
Total			722,310
Tobacco Settlement Bonds (unaudited)			
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 – 7.63	7,290
2001 Series A Tobacco Bonds	2031	4.62 – 5.13	7,845
Total			15,135
Federal Highway Bonds			
2015 Bonds	2016 - 2033	3.00 – 5.00	85,415
Total bonds payable			$ 2,024,015
Plus (Less):			
Bonds premium			$ 57,799
Bonds discount			(2,692)
Bonds accretion			7,053
Total bonds payable, net			$ 2,086,175

Matching (Excise) Tax Bonds

The matching funds pledged for the payment of the bonds consist of annual advance payments received from the U.S. Department of the Treasury of excise taxes imposed and collected under the Internal Revenue laws of the United States on rum products produced in the U.S. Virgin Islands and exported to the United States from the Virgin Islands.

The amount required to be remitted to the Government by the U.S. Department of the Treasury is an amount no greater than the total amount of local revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term “matching fund revenue” is used to denote these payments.

Amounts to be received by the Government from federal rum excise tax are deposited directly into trust accounts in accordance with the Indenture of Trust for bond debt service payments. The amounts to be received are subject to adjustment for the amount of local revenue actually collected by the U.S. Department of the Treasury during such year. Prepayments of matching fund revenue are recorded as deferred revenue in the accompanying statement of net position, and recognized as income in the subsequent fiscal year.

The rate of federal rum excise tax is determined by Congress. In November 1999, Congress increased the federal rum excise tax rate from $10.50 to $13.25 per proof gallon. Since then, Congress has extended the higher rate eight times. Under the Protecting Americans from Tax Hikes Act of 2015, the rate was extended through December 31, 2016.

2013 Series B Revenue and Refunding Bonds

On October 17, 2013, PFA issued the 2013 Series B Revenue and Refunding Bonds (the 2013 Series B Bonds), the proceeds of which amounted to $51.4 million. The Government has pledged matching funds, described above, for the timely payment of the principal and interest. The 2013 Series B Bonds bear interest at rates ranging from 3.00% to 5.00%, and mature on October 1, 2018 through October 1, 2024. The bonds were issued to: (i) refund a portion of the 2004 Series A Bonds amounting to $48.3 million, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds. The 2013 Series B Bonds maturing on October 1, in the years 2018 and 2024 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2013 Series A Revenue and Refunding Bonds

On September 19, 2013, PFA issued the 2013 Series A Revenue and Refunding Bonds (the 2013 Series A Bonds), the proceeds of which amounted to $36.0 million. The Government has pledged matching funds, described above, for the timely payment of the principal and interest. The 2013 Series A Bonds bear interest at rates ranging from 5.00% to 5.25%, and mature on October 1, 2018 through October 1, 2024. The bonds were issued to: (i) provide a partial advance refunding of the 2004 Series A Bonds amounting to $14.7 million, provide a partial advance refunding of the 2009 Series A-1 Bonds amounting to $1.6 million, and provide a partial advance refunding of the 2009 Series B Bonds amounting to $16.7 million, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds. The advance refunding resulted in a net present value economic gain of $4.2 million.

The 2013 Series A Bonds maturing on October 1, in the years 2018 and 2024 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption beginning October 1, 2015.

2012 Series A Revenue Bonds

On September 7, 2012, PFA issued the 2012 Series A Revenue Bonds (the 2012 Series A Bonds), the proceeds of which amounted to $142.6 million. The Government has pledged matching funds, described above, for the timely payment of the principal and interest. The 2012 Series A Bonds bear interest at rates ranging from 4.00% to 5.00%, and mature from 2022 through 2032. The bonds were issued to: (i) provide working capital to the PG to finance various operating expenses, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds.

The 2012 Series A Bonds maturing on October 1, in the years 2022, 2027, and 2032 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2010 Series A & B Revenue Bonds

On July 8, 2010, PFA issued the 2010 Series A & B Revenue Bonds, the proceeds of which amounted to $399.1 million. The Government has pledged matching funds for the timely payment of the principal and interest. The 2010 Series A Bonds, amounting to $305 million, bear interest at rates ranging from 4.00% to 5.00% mature from 2012 through 2029. The 2010 Series B Bonds, amounting to $94.1 million, bear interest at rates ranging from 4.25% to 5.25% and mature from 2020 through 2029.

The bonds were issued to: (i) to finance various operating expenses of the PG, (ii) refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (iii) fund the debt service requirements of the bond issuance, and (iv) to pay the costs of issuing the bonds.

The 2010 Series A Bonds maturing on October 1, in the years 2020, 2025, and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

The 2010 Series B Bonds maturing on October 1, in the years 2025 and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2009 Series A Revenue Bonds (Cruzan)

On December 17, 2009, PFA issued the 2009 Series A Revenue Bonds (the Cruzan Bonds) amounting to $39.2 million. The Government has pledged matching funds generated from the sale of Cruzan rum products for the timely payment of the principal and interest. The Cruzan Bonds bear interest at rates ranging from 3.00% to 6.00% and mature from 2010 through 2039. The proceeds of the Cruzan Bonds were used to: (i) finance the costs of a wastewater treatment facility and renovations at the Cruzan VIRIL, Ltd. (Cruzan) rum distillery on the island of St. Croix, (ii) fund debt service reserve accounts, and (iii) pay the costs of issuing the bonds.

The bonds maturing October 1, 2039 are subject to mandatory sinking fund redemptions beginning October 1, 2020, at a redemption price equal to 100% of the principal amount plus interest accrued to the date of redemption.

In association with the issuance of the Cruzan Bonds, PFA 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. Excess matching fund payments to Cruzan amounted to $40.4 million for the year ended September 30, 2016.

2009 Series A1, A2, B & C Revenue and Refunding Bonds

On October 1, 2009, PFA issued the 2009 Series A1, A2, B & C Revenue and Refunding Bonds, the proceeds of which amounted to $458.8 million. The Government has pledged matching funds for the timely payment of principal and interest. The 2009 Series A1 Bonds amounted to $86.4 million. The 2009 Series A1 Bonds bear interest at rates ranging from 3.00% to 5.00% and mature from 2010 through 2039. The Series A1 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

The 2009 Series A2 Bonds amounted to $8.7 million. The 2009 Series A2 Bonds bear an interest rate of 3.00% and mature from 2010 through 2011. The Series A2 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts and (iii) pay certain costs of issuing the bonds.

The 2009 Series B Bonds amounted to $266.3 million, bear an interest rate of 5.00%, and mature from 2010 through 2025. The 2009 Series B Bonds were issued to: (i) refund the 1998 Series A Bonds, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

The 2009 Series C Bonds amounted to $97.5 million, bear an interest rate of 5.00% and mature from 2010 through 2022. The 2009 Series C Bonds were issued to: (i) refund the 1998 Series E Revenue and Refunding Bonds, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

The 2009 Series A1, B & C Bonds are subject to optional sinking fund installment redemptions beginning October 1, 2019 at a redemption price equal to 100% of the principal amount, plus interest accrued, to the date of redemption.

2009 Series A Revenue Bonds (Diageo)

On July 9, 2009, PFA issued the 2009 Series A Bonds (the Diageo Bonds) amounting to $250.0 million. The Diageo Bonds mature from 2013 through 2037 at interest rates ranging from 6.00% to 6.75%. The proceeds of the bonds were issued to: (i) provide a grant to Diageo USVI, Inc. (the producer of Captain Morgan rum products) to construct a rum distillery and warehouse on the island of St. Croix, (ii) to redeem the Subordinated Revenue Bond Anticipation Notes Series 2009A issued to finance preliminary costs of the Diageo construction project, (iii) to fund debt service reserve accounts, and (iv) to finance capitalized interest and costs associated with the issuance of the bonds.

The PG has pledged matching funds generated from the sale of Captain Morgan rum products for the timely payment of the principal and interest. The Diageo Bonds maturing on or after October 1, 2020 are 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 of redemption.

In association with the issuance of the Diageo Bonds, the Government entered into an agreement with Diageo USVI, Inc. 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% in order to provide marketing support payments, production incentive payments, continuation of molasses subsidies and other tax incentives to attract Diageo USVI, Inc. as part of the rum industry in the U.S. Virgin Islands. Marketing and incentive payments to Diageo USVI, Inc. amounted to $35.6 million for the year ended September 30, 2016. As of September 30, 2016, an additional $7.0 million was due to Diageo USVI, Inc. as part of a negotiated settlement of prior year amounts due.

Gross Receipts Tax Bonds

2014 Series D Revenue Bonds

On December 3, 2014, PFA issued the 2014 Series D Revenue Bonds (the 2014 Series D Bonds), the proceeds of which amounted to $5.8 million. The Government has pledged gross receipts taxes for the timely payment of the principal and interest, subject to the annual moderate income housing fund deposit as well as prior liens or pledges. The 2014 Series D Bonds bear interest at the rate of 6.03% and mature from 2015 through 2033. The bonds were issued to: (i) fund certain capital projects, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds.

The 2014 Series D Bonds are subject to optional redemption prior to maturity in whole or in part, in a minimum amount of $100 thousand at a redemption price equal to the make-whole redemption price which is the greater of 100% of the principal amount to be redeemed or the sum of the present values of the remaining scheduled payments of principal and interest assuming a 360-day year consisting of twelve 30-day months at the Treasury Rate on the date of redemption as published in the Federal Reserve Statistical Release H.15 (519).

2014 Series C Revenue and Refunding Bonds

On November 14, 2014, PFA issued the 2014 Series C Revenue and Refunding Bonds (the 2014 Series C Bonds), the proceeds of which amounted to $247.0 million. The Government has pledged gross receipts taxes for the timely payment of the principal and interest. The 2014 Series C Bonds bear interest at rates ranging from 4.50% to 5.00%, and mature from 2015 through 2044. The bonds were issued to: (i) refund the 2003 Series A Bonds amounting to $233.3 million, (ii) finance certain capital projects amounting to $25.5 million, (iii) fund the debt service requirements of the bond issuance, and (iv) pay the costs of issuing the bonds. The current refunding of the Series 2003A Bonds resulted in a net present value economic gain of $9.6 million.

The proceeds of the 2014 Series C Bonds related to the refunding were placed in a trust to provide for all future debt service payments on the 2016 through 2034 maturities of the Series 2003A Bonds.

Approximately, $235.2 million of the bond proceeds were deposited in the escrow fund account. On December 1, 2014, the 2003A Bonds were defeased through the exercise of call redemptions.

The 2014 Series C Bonds maturing on October 1, in the years 2030 and 2039 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2014 Series A Revenue Bonds

On September 5, 2014, PFA issued the 2014 Series A Revenue Bonds (the 2014 Series A Bonds), the proceeds of which amounted to $49.6 million. The Government has pledged gross receipts taxes for the timely payment of the principal and interest. The 2014 Series A Bonds bear interest at 5.00%, and mature from 2015 through 2034. The bonds were issued to: (i) provide working capital to the Government to finance various operating expenses (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds.

The 2014 Series A Bonds maturing on October 1, 2029 and 2034 are subject to optional redemption on or after October 1, 2024 at a redemption price equal to 100% of the principal amount plus interest accrued to the redemption date.

2012 Series A & B Revenue and Refunding

On November 20, 2012, PFA issued the 2012 Series A & B Revenue and Refunding Bonds, the proceeds of which amounted to $228.8 million. The Government has pledged gross receipts taxes, for the timely payment of the principal and interest. The 2012 Series A Bonds, amounting to $197.0 million, bear interest at rates ranging from 2.25% to 5.00% and mature from 2017 through 2032. The 2012 Series B Bonds, amounting to $31.7 million, bear interest at the rate of 5.25% and mature in 2027.The Series 2012A Bonds were issued to: (i) refund the 1999 Series A Bonds, (ii) repay the Series 2010 A1 and 2010 A2 Notes, (iii) fund the debt service requirements of the bond issuance, and (iv) pay the costs of issuing the bonds.

The 2012 Series A Bonds maturing on October 1, in the years 2017, 2022, and 2032 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption. The refunding of the Series 1999A Bonds resulted in an economic gain of net present value savings of $7.7 million.

The Series 2012 B Bonds were issued to: (i) refinance the Series 2011 A Note (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds.

The 2012 Series B Bonds maturing on October 1, 2027 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2012 Series C Revenue Bonds

On December 19, 2012, PFA issued the 2012 Series C Revenue Bonds (the 2012 Series C Bonds), the proceeds of which amounted to $35.2 million. The Government has pledged gross receipts taxes, for the timely payment of the principal and interest. The 2012 Series C Bonds, bear interest at rates ranging from 3.00% to 5.00% and mature from 2017 through 2042.

The Series 2012 C Bonds were issued to: (i) finance certain operating expenses and other obligations of the Government, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds. The 2012 Series C Bonds maturing on October 1, in the years 2017, 2030 and 2042 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

2006 Series A Revenue Bonds

On September 28, 2006, PFA issued the 2006 Series A Revenue Bonds (the 2006 Series A Bonds), the proceeds of which amounted to $219.5 million. The Government has pledged gross receipts tax revenues for the timely payment of the principal and interest. The 2006 Series Bonds bear interest at 3.50% to 5.00% and mature from 2007 through 2029. The proceeds of the bonds were issued to: (i) advance refund a portion of the Series 1999A Revenue Bonds, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund debt service reserve accounts, (v) pay certain costs of issuing the Series 2006 Bonds, and (vi) fund a net payment reserve account for a new swap agreement in connection with the refunding. The 2006 Series Bonds maturing on or before October 1, 2016 are not subject to optional redemption.

The advance refunding of the 2020 through 2029 maturities of the 1999 Series A Bonds was made in order to obtain lower interest rates. 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 2006 Series Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the 1999 Series A Bonds. Approximately $180.0 million in funds were deposited into the Escrow Fund accounts. At September 30, 2016, $66.8 million of the defeased 1999 Bonds remained outstanding.

Tobacco Settlement Bonds (unaudited)

2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds

On March 15, 2006, the Tobacco Settlement Financing Corporation (TSFC) issued the 2006 Tobacco Settlement Asset-Backed Bonds, Subordinated Series 2006 A, B, C & D Turbo and Capital Appreciation Bonds amounting to $48.1 million, with an issue value of $7.3 million (net of accretion of $40.8 million). The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture and TSFC's rights under the purchase agreement.

The proceeds have been used for the purpose of (i) financing several capital hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) pay certain costs of issuance relating to the Series 2006 Bonds, and (iii) fund operating costs.

Interest on the Series 2006 Tobacco Settlement Asset-Backed Bonds is not paid currently, but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006 through the final maturity date of May 15, 2035. Interest yields on the Bonds range from 6.25% to 7.63%. The series are subject to early redemption at accreted value beginning May 15, 2023, provided that the 2001 Tobacco Settlement Asset-Backed Series A Bonds have been paid in full.

2001 Series A Tobacco Bonds

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Asset-Backed Series A Bonds amounting to $23.7 million of the aggregate principal. The proceeds were used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the master settlement agreement (MSA) entered into by participating cigarette manufacturers, (ii) issuance of Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) to provide funds for hospital and healthcare projects in the U.S. Virgin Islands.

Interest on the 2001 bonds is payable semiannually each May and November 15 for the term bonds amounting to $15.5 million and convertible capital appreciation bonds amounting to $8.2 million, with a nominal value of $6.2 million.

The convertible capital appreciation bonds accrete interest prior to November 15, 2007 and accrue interest subsequent to that date. Interest on the capital appreciation bonds will compound on May 15 and November 15.

The 2001 Series A Tobacco Bonds payable at September 30, 2016 amounted to $7.9 million. Under early redemption provisions, any MSA payments exceeding annual debt service requirements of the 2001 Series A Tobacco Bonds must be applied to early redemption of principal. MSA payments and interest earnings on the trust funds during the year ended September 30, 2016, resulted in turbo redemptions of $80 thousand on November 16, 2015 and $1.6 million on May 15, 2016.

Federal Highway Bonds

On December 15, 2015, PFA issued the Series 2015 Grant Anticipation Revenue Bonds (the 2015 Bonds) in the amount of $89.9 million. The limited special obligation bonds are secured by a lien and security interest on Federal Highway Administration (FHA) grant revenues. The 2015 Bonds were issued to: (i) finance the costs of certain highway projects, (ii) establish debt service reserves, and (iii) to finance the costs of issuing the 2015 Bonds. The Government and FHA entered into a Memorandum of Understanding on December 9, 2015 to document the procedures, rules, and responsibilities of the Government to supervise the capital projects and to manage debt service payments. The 2015 Bonds mature from 2016 through 2033, at interest rates ranging from 3.0% to 5.0%. Interest is payable on March 1 and September 1 annually, and principal is payable on September 1 annually.

The 2015 Bonds maturing on October 1, in the years 2025 through 2033 are eligible for early redemption at a price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

Advance Refunding/Defeasances

On June 15, 1992, PFA issued the Series 1992 Revenue 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, 2016, $6.2 million of the 1989 defeased bonds were outstanding. Assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government's basic financial statements.

On November 16, 1999, PFA issued the 1999 Series A Revenue Bonds amounting to $299.9 million. These bonds were issued to (i) pay certain working capital obligations of the Government, (ii) repay the Government outstanding tax and revenue anticipation notes, (iii) fund the Series debt service accounts, and (iv) finance certain costs of issuing the bonds.

On September 28, 2006, PFA advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2020 to October 1, 2029 totaling $162.9 million. The proceeds of the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the bonds. Approximately $180.0 million was deposited with the refunding bond escrow agent to fund the Escrow Fund accounts. At September 30, 2016, $66.8 million of the defeased 1999 Series A Revenue Bonds remain outstanding.

Future debt service requirements for bonds for which matching funds have been pledged are as follows (expressed in thousands):

Governmental Activities – Matching Fund Bonds

	2009 Series A Revenue Bonds (Diageo)		2009 Series A1 & A2 Revenue Bonds		2009 Series B Revenue Bonds		2009 Series C Revenue Bonds		2009 Series A Revenue Bonds (Cruzan)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2017	$ 4,890	$ 15,729	$ 1,770	$ 3,709	$ 19,450	$ 8,460	$ 8,040	$ 2,850	$ 705	$ 2,088
2018	5,235	15,387	1,840	3,640	20,450	7,462	8,440	2,438	740	2,051
2019	5,600	15,022	1,915	3,563	21,500	6,414	8,860	2,005	780	2,013
2020	5,990	14,630	2,000	3,481	22,600	5,311	9,145	1,555	820	1,973
2021	6,405	14,216	2,090	3,388	23,760	4,152	8,415	1,116	865	1,926
2022-2026	39,245	63,863	12,090	15,309	71,160	8,103	18,115	841	5,205	8,756
2027-2031	54,665	48,439	15,460	11,938	-	-	-	-	7,035	6,933
2032-2036	76,475	26,625	19,850	7,547	-	-	-	-	9,490	4,472
2037-2041	38,590	2,649	19,865	2,049	-	-	-	-	9,935	1,237
Total	$ 237,095	$ 216,560	$ 76,880	$ 54,624	$ 178,920	$ 39,902	$ 61,015	$ 10,805	$ 35,575	$ 31,449

Governmental Activities – Matching Fund Bonds

	2010 Series A Revenue Bonds		2010 Series B Revenue Bonds		2012 Series A Revenue Bonds		2013 Series A Revenue Bond		2013 Series B Revenue Bonds		Total Matching Excise Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2017	$ 2,395	$ 14,766	$ -	$ 4,833	$ 850	$ 6,962	$ 2,320	$ 1,662	$ 5,250	$ 2,157	$ 45,670	$ 63,216
2018	2,520	14,643	-	4,834	900	6,927	7,555	1,415	-	2,052	47,680	60,849
2019	2,660	14,514	-	4,834	950	6,890	7,905	1,028	-	2,052	50,170	58,335
2020	2,800	14,377	-	4,834	1,000	6,851	2,335	770	6,035	1,902	52,725	55,684
2021	2,955	14,234	1,050	4,811	1,100	6,808	2,460	645	6,335	1,592	55,435	52,888
2021-2025	92,260	61,609	37,460	20,922	6,600	33,247	11,215	1,201	28,675	2,955	322,025	216,806
2026-2030	190,930	19,689	55,540	6,023	45,845	30,407	-	-	-	-	369,475	123,429
2031-2035	-	-	-	-	83,770	4,241	-	-	-	-	189,585	42,885
2036-2040	–	-	-	-	–	-	-	–	-	-	68,390	5,935
Total	$ 296,520	$ 153,832	$ 94,050	$ 51,091	$ 141,015	$ 102,333	$ 33,790	$ 6,721	$ 46,295	$ 12,710	$1,201,155	$ 680,027

Future debt service requirements for bonds for which gross receipts taxes have been pledged are as follows (expressed in thousands):

	Governmental Activities - Gross Receipts Tax Bonds							
	2006 Series A Revenue Bonds		2012 Series A Revenue Bonds		2012 Series B Revenue Bonds		2012 Series C Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:								
2017	$ 3,240	$ 9,589	$ 11,110	$ 7,344	$ 1,670	$ 1,385	$ 1,775	$ 1,488
2018	3,360	9,424	11,415	7,090	1,765	1,295	1,820	1,434
2019	3,485	9,252	11,835	6,725	1,855	1,200	1,600	1,367
2020	3,615	9,075	12,380	6,241	1,955	1,100	1,685	1,284
2021	15,865	8,667	800	5,977	2,065	995	1,770	1,198
2022-2026	87,710	31,104	24,785	27,798	12,105	3,179	5,175	4,908
2027-2031	82,555	7,871	61,400	16,982	5,805	309	2,770	4,142
2032-2036	-	–	33,555	1,700	-	-	5,225	3,155
2037-2041	-	–	-	-	-	-	6,715	1,671
2042-2046	-	–	-	-	-	-	3,190	162
Total	$ 199,830	$ 84,982	$ 167,280	$ 79,857	$ 27,220	$ 9,463	$ 31,725	$ 20,809

	Governmental Activities - Gross Receipts Tax Bonds							
	2014 Series A Revenue Bonds		2014 Series C Revenue Bonds		2014 Series D Revenue Bonds		Total Gross Receipts Tax Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:								
2017	$ 1,560	$ 2,369	$ 4,995	$ 11,941	$ 175	$ 332	$ 24,525	$ 34,448
2018	1,635	2,289	5,240	11,685	190	321	25,425	33,538
2019	1,720	2,205	5,510	11,416	200	310	26,205	32,475
2020	1,810	2,117	5,790	11,134	215	297	27,450	31,248
2021	1,900	2,024	6,065	10,837	225	284	28,690	29,982
2022-2026	11,075	8,555	34,115	49,220	1,360	1,190	176,325	125,954
2027-2031	14,225	5,408	60,605	39,747	1,840	712	229,200	75,171
2032-2036	14,235	1,468	103,025	12,062	1,395	129	157,435	18,514
2037-2041	-	-	6,865	3,172	-	-	13,580	4,843
2042-2046	-	-	10,285	1,102	-	-	13,475	1,264
Total	$ 48,160	$ 26,435	$ 242,495	$ 162,316	$ 5,600	$ 3,575	$ 722,310	$ 387,437

Future debt service requirements for bonds for which tobacco settlement revenues have been pledged are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2017	$ -	$ 392
2018	-	392
2019	-	392
2020	-	393
2021	-	393
2022-2026	-	1,961
2027-2031	7,845	1,961
2032-2036	7,290	-
Plus future accretion	7,053	-
Total	$ 22,188	$ 5,884

Future debt service requirements for bonds for which Federal Highway grant revenues have been pledged are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2017	$ 3,335	$ 4,237
2018	3,470	4,104
2019	3,645	3,931
2020	3,825	3,748
2021	4,015	3,557
2022-2026	23,305	14,564
2027-2031	29,735	8,126
2032-2036	14,085	1,065
Total	$ 85,415	$ 43,332

(b) Loans Payable

Series 2015A Note

On September 25, 2015, PFA issued the Series 2015 Real Property Tax Revenue Anticipation Note (Series 2015A Note) amounting to $40.0 million. The Government pledged tax year 2015 property taxes for the timely payment of the Series 2015A Note, with a subordinate lien on gross receipts taxes. The Series 2015A Note bears interest at the Wall Street Journal Prime Rate plus 50 basis points. The Series 2015A Note was issued to: (i) to finance certain operating expenses of the PG and (ii) to fund certain costs of issuing the Series 2015A Note. The note was repaid in May 2016 from 2015 property tax collections.

Series 2014E Note

On December 18, 2014, PFA issued the Series 2014E-1 Subordinate Lien Revenue Anticipation Note (Series 2014E-1 Note) amounting to $20.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2014E-1 Note. The Series 2014E-1 Note bears interest at 6.0% and the Note was fully repaid on January 8, 2016.

The Series 2014E-1 Note was issued to: (i) finance certain operating expenses of the Government and (ii) fund certain costs of issuing the Series 2014E-1 Note.

On August 20, 2015, PFA issued the Series 2014E-2 Subordinate Lien Revenue Anticipation Note (Series 2014E-2 Note) amounting to $20.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2014E-2 Note. The Series 2014E-2 Note bears interest at 6.0% and the Note was fully repaid on January 8, 2016. The Series 2014E-2 Note was issued to: (i) finance certain operating expenses of the Government and (ii) fund certain costs of issuing the Series 2014E-2 Note.

On December 23, 2015, PFA issued the Series 2014E-3 Subordinate Lien Revenue Anticipation Note (Series 2014E-3 Note) amounting to $20.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2014E-3 Note. The Series 2014E-3 Note bears interest at 6.0%. The Series 2014E-3 note was repaid in two payments of $10.0 million, on January 8, 2016 and February 25, 2016, respectively. The Series 2014E-3 Note was issued to: (i) finance certain operating expenses of the Government and (ii) fund certain costs of issuing the Series 2014E-3 Note.

Series 2014B Note

On September 12, 2014, PFA issued the Series 2014B Gross Receipts Taxes Subordinate Loan Note (Series 2014B Note) amounting to $14.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2014B Note. The Series 2014B Note bears interest at the 90-day LIBOR rate with 375 basis points. As of September 30, 2016, this rate was 4.465%. The Series 2014B Note will be repaid in equal principal payments of $167 thousand over an 84 month period. The Series 2014B Note was issued to: (i) to finance certain operating expenses of the PG, and (ii) to fund certain costs of issuing the Series 2014B Note.

Future debt service requirements for the Series 2014B Note are as follows (expressed in thousands):

Year	Principal	Interest
2017	$ 2,000	$ 371
2018	2,000	289
2019	2,000	207
2020	2,000	126
2021	2,000	44
Total	$ 10,000	$ 1,037

Series 2013A Note

On May 14, 2013, PFA issued the Series 2013A Subordinate Lien Revenue Note (Series 2013A Note) amounting to $6.7 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2013A Note. Three draws have been made on the Series 2013A Note: $2.7 million was drawn on May 16, 2013 (the Series 2013A-1 drawing), $2.8 million was drawn on September 12, 2014 (the Series 2013A-2 drawing), and $1.3 million was drawn on July 18, 2016 (the Series 2013A-3 drawing). The Series 2013A Note bears interest at the 90 day LIBOR rate plus 375 basis points to be paid in thirty-six (36) monthly payments. As of September 30, 2016, this rate was 4.465%.

The Series 2013A-1 and A-2 drawings were issued to: (i) finance the acquisition of a fleet of police vehicles for the PG, and (ii) to fund certain costs of issuing the Series 2013A Note.

Future debt service requirements for the Series 2013A Notes are as follows (expressed in thousands):

Year	Principal
2017	$ 1,347
2018	500
2019	353
Total	$ 2,200

Series 2012A Note

On October 1, 2012, PFA entered into the Series 2012A Tax Increment Revenue Term Loan Note (the Series 2012A Notes) in the amount of $13.7 million. The Series 2012A Notes were issued as part of a Term Loan Note Conversion of the Series 2009A Notes which were issued to provide a loan to the PG (the Series 2009A Tax Increment Revenue Loan Note) to finance the developmental costs of a shopping complex on the island of St. Croix. The Series 2012A Notes are a term loan with twenty quarterly payments (five years) based on a twenty-five (25) year amortization schedule, with a final payment on October 1, 2018. The Notes bear interest of 300 points above the J.P. Morgan Chase Prime Rate, or 6.25%, whichever is higher.

Future debt service requirements for the Series 2012A Notes are as follows (expressed in thousands):

Year	Principal	Interest
2017	$ 295	$ 801
2018	12,449	199
Total	$ 12,744	$ 1,000

Series 2011B Note

On November 14, 2011, PFA entered into the 2011 Property Tax Revenue Anticipation Note (the Series 2011B Note) in the amount of $13.0 million. The proceeds were used to pay incentive payments to government employees who elected to retire early under Act No. 7261 the “Economic Stability Act”, as amended by Acts No. 7270 and 7307. The Series 2011B Note is a general obligation of the PG, secured by a first priority lien on real property taxes levied for tax years up to and including tax year 2005. Also, the PG has pledged a third subordinate lien on the gross receipts taxes, along with all fines, interest, penalties and other charges related to gross receipts taxes. Interest on the Series 2011B Note accrues monthly at the rate of 4.91% until the Series 2011B Note reaches maturity on December 15, 2016. On that date, the Series 2011B Note will convert to a two-year term loan.

Future debt service requirements for the Series 2011B Note are as follows (expressed in thousands):

Year	Principal	Interest
2017	$ 4,997	$ 56

(c) Loan Payable – U.S. Treasury

In August 2009, the Territory reserve balance of the Unemployment Trust Fund (UTF) became inadequate to cover expenditures for unemployment compensation (UC) benefits. UC benefits are an entitlement program administered through the U.S. Treasury and the PG is legally liable to pay benefits even if the UTF becomes insolvent. As of September 30, 2016, the PG owed $69.2 million to the U.S. Treasury.

The loan was subject to interest at federal rates of 2.2256% for the 2016 calendar year. During 2016, the PG paid $1.6 million in interest to the U.S. Treasury on the UTF loans.

(d) Note Payable - WICO

On October 18, 2013, WICO entered into a refinancing loan agreement with Banco Popular de Puerto Rico amounting to $28.5 million (WICO loan). Under the terms of the refinancing agreement, WICO pledged: (i) operating revenues arising from the ship's agent business and (ii) real property and improvements referred to as the "WICO Dock" including bulkhead and wharf, warehouses, office buildings, maintenance buildings and other facilities. The purpose of the WICO loan is to: (i) repay the existing loan with the bank amounting to $21.2 million, (ii) finance the construction and expansion of the WICO dock and ship berthing facilities to accommodate larger cruise ships, and (iii) to fund costs associated with the issuance of the WICO loan. The WICO loan bears interest at 6.18%, and requires only interest payments during the first twelve months from the date of closing on the loan. Thereafter, the loan shall be repaid in fifty-nine (59) monthly installment payments of $187 thousand based on a twenty-five (25) year amortization, with a sixtieth (60), final payment of outstanding principal. At September 30, 2016, the outstanding balance of the loan was $28.5 million.

On November 12, 2014, WICO finalized an interim financing agreement to procure a loan with Banco Popular de Puerto Rico. The agreement provides for a loan in the amount of $3.8 million bearing interest at 6.75% per annum. The loan has an interest-only period of twelve (12) months from the issue date. Additionally, the payments are based on a twenty-five (25) year amortization, with a final maturity in six (6) years. This interim financing provides funding for a new pier on the island of St. Thomas. At September 30, 2016, the outstanding balance of the loan was $3.8 million.

On March 29, 2016, WICO entered into a short-term loan with Banco Popular de Puerto Rico in the amount of $834 thousand. The loan has an interest only period of twelve (12) months from the issue date at an interest rate of 5.25%. The interim financing is in connection with the establishment of a fixed asset account of $500 thousand for future capital projects. At September 30, 2016, the outstanding balance of the loan was $834 thousand.

Future debt service requirements for the WICO loan are as follows (expressed in thousands).

Year	Principal	Interest
2017	$ 709	$ 1,939
2018	1,404	1,933
2019	701	1,852
2020	747	1,807
2021	795	1,759
2022 - 2026	4,807	7,961
2027 - 2031	6,562	6,205
2032 - 2036	8,959	3,809
2037 - 2041	7,497	795
Total	$ 32,181	$ 28,060

(e) Insurance Guaranty Fund Minimum Balance Requirement

Under Title 22, Chapter 10 of the VIC, the Virgin Islands Insurance Guaranty Fund is required to maintain a minimum balance of $50.0 million for claimant payments in the event of a failure of an insurance carrier. On February 10, 2012, legislation was enacted authorizing a reduction in the minimum balance to be held by the Virgin Islands Insurance Guaranty Fund from $50.0 million to $10.0 million until September 30, 2015. That legislation was amended on August 9, 2013, to authorize the PG to issue bonds or notes of up to $40.0 million on behalf of the Insurance Guaranty Fund, if necessary for claimant payments. The authorization will terminate on the earlier of (i) the date that funds on deposit in the Insurance Guaranty Fund equal $50.0 million dollars or (ii) March 31, 2019.

Component Units

Bonds payable of discretely presented component units are those liabilities that are paid out of resources pledged by such entities. Bonds payable, outstanding at September 30, 2016, are as follows (expressed in thousands):

	Maturity	Interest Rate (%)	Balance
Bonds Payable			
Virgin Islands Water and Power Authority (Electric System):			
Revenue Bonds of 2015	2025	1.60	$ 13,000
Revenue Bonds of 2012	2025	1.25 - 5.40	59,940
Revenue Bonds of 2010	2035	4.00 - 6.85	61,360
Revenue Bonds of 2007	2031	4.50 - 5.00	57,585
Revenue Bonds of 2003	2028	4.00 – 5.00	48,295
Virgin Islands Water and Power Authority (Water System):			
Revenue Bonds of 1998	2017	5.50	7,140
Virgin Islands Port Authority:			
Series A Revenue Bonds of 2014	2033	4.00 – 5.00	26,740
Series B Revenue Bonds of 2014	2044	3.00 – 5.00	13,880
Series C Revenue Bonds of 2014	2025	2.00 – 5.00	3,920
Subtotal			291,860
Plus unamortized premium			7,000
Less unamortized discount			(22)
Bonds payable, net			298,838
Less amount due within one year			(18,029)
Bonds payable, due in more than one year			$ 280,809

The changes in long-term liabilities for discretely presented component units are as follows for the year ended September 30, 2016 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Virgin Islands Water and Power Authority:						
Electric System	$ 241,502	$ 13,000	$ (11,162)	$ 243,340	$ 11,530	$ 231,810
Water System	10,391	–	(3,273)	7,118	3,475	3,643
Virgin Islands Port Authority	51,359	–	(2,979)	48,380	3,024	45,356
Total	$ 303,252	$ 13,000	$ (17,414)	$ 298,838	$ 18,029	$ 280,809

The changes in loans payable and other long-term liabilities for discretely presented component units are as follows for the year ended September 30, 2016 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Notes payable						
Virgin Islands Economic Development Authority	$ 343	$ –	$ (25)	$ 318	$ 25	$ 293
Virgin Islands Water and Power Authority:						
Electric System	3,256	–	(2,780)	476	478	(2)
Virgin Islands Housing Authority	1,305	–	(435)	870	435	435
Virgin Islands Port Authority	632	1,800	(1,520)	912	912	-
Virgin Islands Housing Finance Authority	1,182	–	(79)	1,103	79	1,024
UVI Research & Technology Park (unaudited)	3,774	833	-	4,607	592	4,015
University of the Virgin Islands (unaudited)	78,843	-	(3)	78,840	2,103	76,737
Total	89,335	2,633	(4,842)	87,126	4,624	82,502
Line of credit payable						
Virgin Islands Water and Power Authority:						
Electric System	25,128	-	–	25,128	25,128	-
Water System	2,500	–	-	2,500	2,500	-
Total	$ 27,628	$ –	$ -	$ 27,628	$ 27,628	$ -

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Other long-term liabilities:						
Virgin Islands Housing Authority	$ 15,356	$ 4,103	$ (3,598)	$ 15,861	$ 3,352	$ 12,509
Virgin Islands Port Authority	3,180	1,247	(1,925)	2,502	973	1,529
Virgin Islands Water and Power Authority:						
Electric System	51,879	4,747	–	56,626	–	56,626
Water System	8,929	793	–	9,722	–	9,722
Hospital and Health Facilities Corporation:						
Roy L. Schneider Hospital	2,852	170	-	3,022	3,022	-
Juan F. Luis Hospital	9,978	-	(874)	9,104	9,104	-
University of the Virgin Islands (unaudited)	4,654	20	(148)	4,526	1,286	3,240
Other component units*	11,440	1,299	(1,179)	11,560	1,260	10,300
Total	$ 108,268	$ 12,379	$ (7,724)	$ 112,923	$ 18,997	$ 93,926

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

(a) Bonds Payable

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2015

In November 2015, the Electric System of WAPA issued a bond series designated as 2015A Series Bond, issued in the principal amount of up to S13 million under the Electric Revenue Bond Resolution, as supplemented, and as further supplemented by a Fifth Supplemental Resolution adopted on September 24, 2015, as Amended and Restated on November 25, 2015. The proceeds of the 2015A bonds will be used to finance or refinance the acquisition and installation of an automated metering system and other costs related thereto.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2012

In May 2012, the Electric System of WAPA issued: (i) 2012A Electric System Revenue Refunding Bonds amounting to $17.3 million; (ii) 2013B Electric System Subordinated Revenue Bonds amounting to $19.7 million; and (iii) 2013C Electric System Subordinated Revenue Bonds amounting to $32.1 million. The proceeds of the Series 2012A Bonds were used to refund the Electric System Revenue Refunding Bonds, Series 1998 and pay certain costs of issuances of the Series 2013A Bonds. The proceeds of the Series 2012B Bonds were used to refinance a portion of the Electric System Term Loan, make a deposit into the Subordinated Debt Service Reserve Fund sufficient to satisfy the Series 2012B Subordinated Debt Service Fund Requirement and pay certain costs of issuance of the Series 2012B Bonds. The proceeds of the Series 2012C Bonds were used to refinance all or a portion of the Electric System Working Capital Lines of Credit and Overdraft Credit Facility, make a deposit into the Series 2012C Subordinated Debt Service Reserve Fund sufficient to satisfy the Subordinated Debt Service Reserve Fund Requirement and pay certain costs of issuance of the Series 2012C Bonds.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2010

In March 2010, the Electric System of WAPA issued $39.1 million 2010A Electric System Revenue Refunding Bonds; $9.0 million 2010B Electric System Revenue Bonds; and $37.3 million 2010C Electric System Revenue Refunding Bonds. The proceeds of the Series 2010A Bonds were used to: i) to fund a portion of the cost of certain capital expenditures, Series 1998 and ii) pay certain costs of issuance of the Series 2010A Bonds. The proceeds of the Series 2010B and 2010C Bonds were used to: i) finance certain capital expenditures temporarily funded through draws on a line of credit ($9.0 million) and ii) to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the three series were also used to pay certain costs of issuance of the 2010A, 2010B, and 2010C Revenue and Refunding Bonds.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2007

In June 2007, the Electric System of WAPA issued $57.6 million 2007A Electric System Subordinated Revenue Bonds, to pay certain costs of issuance of the bonds, make certain required deposits to the Subordinated Debt Service Fund to finance the costs of certain capital improvements, refinance capital improvements funded through draws on a Line of Credit, and to reinstall a $10.0 million Line of Credit.

Virgin Islands Water and Power Authority – Electric System Revenue Bonds of 2003

In June 2003, the Electric System of WAPA issued the Electric System Revenue Bonds, Series 2003, amounting to $69.9 million. The proceeds from the bonds were used to finance capital improvements, repay $18.0 million of then outstanding lines-of-credit, cover underwriters' costs, and establish a debt service fund. The Series 2003 Bonds maturing on or after July 1, 2023 are subject to redemption prior to their stated maturity date, at the option of the Electric System, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

Under the terms of the Bond Resolution relating to the Electric System Revenue and Refunding Bonds, payment of the principal and interest is secured by an irrevocable lien on the Electric System's net revenue, (exclusive of any funds that may be established pursuant to the Bond Resolution for certain specified purposes), including the investments and income, if any, thereof.

Under the General Resolution, the Authority is required to maintain a Debt Service coverage ratio at least equal to 1.25 times (125%) the principal of and interest on all Outstanding Senior Bonds for the current and each future fiscal year (the Senior Coverage). Under the Electric System Subordinated Revenue Bond Resolution, adopted by the WAPA on May 17, 2007, as amended and supplemented (the Subordinated Bond Resolution), the WAPA must satisfy the Debt Service coverage ratio of the General Resolution for the Senior Bonds, must maintain a Subordinated Debt Service coverage ratio at least equal to 1.15 times (115%) the principal of and interest on all Outstanding Bonds (the Senior and Subordinate Coverage) and all Outstanding Subordinated Bonds for the current and each future fiscal year, and must maintain at least 1.0 times (100%) the Maximum Aggregate Debt Service for each such fiscal year (total debt coverage).

For the year ended June 30, 2016, the Electric System's Debt Service Coverage ratio was 1.12 for total Debt Coverage. Section 606(2) of the Resolution provides that if the Authority fails to achieve such 1.00 coverage in a particular year, the Electric System must "take whatever steps it can to produce the amount of net electric revenues required in the following fiscal year." Section 701 (3) of the Resolution relates to covenant defaults and makes them an event of default if such covenant default continues for 60 days after notice unless the Electric System is proceeding with diligence to cure such default. The Electric System believes it is taking such steps currently to ensure future compliance with the ratio, including filing of a request for increased rates. The Electric System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Electric System was damaged, destroyed, taken, or condemned, or (ii) any for-profit nongovernmental investor shall acquire an ownership interest in some or all of the assets of the Electric System.

Virgin Islands Water and Power Authority – Water System

In December 1998, the Water System of WAPA issued the 1998 Water System Revenue and Refunding Bonds amounting to $44.2 million. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States Government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds.

Payment of principal and interest of the 1998 Series Bonds is secured by an irrevocable lien on the Water System's net revenues (exclusive of any funds that may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Water System has conveyed to the bond trustee, a subordinate lien and security interest in the Water System's General Fund. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The Water System's Bond Resolution requires the Water System under Section 606(1), for as long as the bonds are outstanding, to establish rates "so that in each fiscal year the net water revenues shall at all times be at least 1.25 the aggregate debt service requirement for such fiscal year." For the year ended June 30, 2016, the Water System's Debt Service Coverage ratio was 1.95, respectively. Section 606(2) of the Resolution provides that if the Water System fails to achieve such 1.25 coverage in a particular year, the Water System must "take whatever steps it can to produce the amount of net water revenues required in the following fiscal year." Section 701(3) of the Resolution relates to covenant defaults and makes them an event of default if such covenant default continues for 60 days after notice unless the Water System is proceeding with diligence to cure such default. The management of the Water System advises it is taking necessary steps to ensure future compliance with debt coverage ratios.

The 1998 Series Bonds maturing on or after July 1, 2010 are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time, at a redemption price of 101% through June 30, 2010 and 100% thereafter. The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Water System shall be damaged, destroyed, taken, or condemned or (ii) any for-profit non-governmental investor shall acquire an ownership interest in some or all assets of the Water System.

Virgin Islands Port Authority

In October 2014, VIPA issued the 2014 Series Marine Revenue Bonds A, B & C amounting to $48.6 million, with an average interest rate of 4.70%. A portion of the proceeds was used to refund the outstanding bond series 2003 A and C amounting to $24.5 million, which included accrued interest as of the redemption date for October 27, 2014. The proceeds from the issuance of the 2014 Series used in the refunding were deposited in an escrow account, held by the Trustee on behalf of the holders of the refunded bonds, and applied to such redemption contemporaneously with the issuance of the Series 2014 Bonds.

As a result, the 2003 A & C Bonds were paid off. The 2003 Series B Marine Revenue Bonds were paid off. As a result of the refunding, the Authority reduced its total debt service requirement by $1.7 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of $2.4 million. In addition, the Authority recognized a deferred charge on debt refunding amounting to $.4 million. The proceeds of the 2014 Bonds, together with certain other available funds of the Authority, will be used for: (i) refunding $24.5 million in 2003 Series A Marine Revenue bonds and pay off the 2003 Series bonds, (ii) for the financing of various capital projects, (iii) to fund a deposit to the debt service fund, (iv) to fund a deposit to the operation, maintenance, renewal and replacement reserve account, and (v) to pay the cost of issuance of the 2014 Bonds.

The 2014 bonds issued by VIPA contain certain bond indentures. The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance and other costs specified in the corresponding indentures. The bonds' indentures also specify certain debt service coverage requirements determined from Net Available Revenues (as defined) of the Marine Division. The provisions of each of the bonds' indentures require that rates and fees charged for the use of each facility generate enough revenues to pay all operation and maintenance expenses, exclusive of depreciation and certain non-cash charges, of the respective facilities plus (i) at least 125% of the principal and interest, and redemption account sinking fund deposit requirements of each of the bonds becoming due during such year, (ii) the amount of the debt service reserve fund deposit requirement for such period, (iii) the deposit required to the Renewal and Replacement Fund, and (iv) the amount of the capital improvements appropriation for such period.

Future debt service requirements for discretely presented component units' bonds payable are as follows (expressed in thousands):

Maturity Year	Principal	Interest
2017	$ 17,335	$ 14,637
2018	18,518	13,818
2019	16,050	12,911
2020	2,695	46,838
2021-2025	87,101	32,986
2026-2030	77,430	93,782
2031-2035	57,647	3,642
2036-2040	13,584	1,088
2041-2044	1,500	162
Total	291,860	$ 219,864
Plus unamortized premium	7,000	
Less unamortized discount	(22)	
Bonds payable, net	$ 298,838	

(b) Notes Payable

Virgin Islands Water and Power Authority – Electric System

In November 2008, the Electric System of WAPA obtained general obligation notes from First Bank in the amount of $40.0 million at an interest rate of 5.5%, the proceeds of which were used to finance outstanding invoices from HOVENSA. The Notes were issued based on a five year amortization, but with a balloon payment in three years.

In October 2008, pursuant to Amended Order No. 05/2009 in Docket No. 289, the Public Service Commission (PSC) ordered (i) the principal and interest payments on the Notes to be recognized for recovery through the Levelized Energy Adjustment Clause (LEAC) billing factor for the Electric System and the Water System commencing in November 2008, of which 82.5%, or $7.6 million annually, has been allocated to the Electric System and 17.5%, or $1.6 million annually to the Water System, and (ii) the collection of the fuel costs recoverable balance to be reduced by the principal amount of the Notes.

Pursuant to the Guaranty of the Government for the benefit of First Bank, dated November 13, 2008 (the General Obligation Guaranty), which was authorized by the Legislature in Act 7028, the Government agreed to guarantee the payment of the principal and interest on the Notes.

In October 2010, the Electric System of WAPA petitioned the commission for approval of a refinancing of the $40.0 million term loan. Through Order #16/2011 issued by the PSC in December 2010, the loan was approved. On December 22, 2010, the term-loan was refinanced at an interest rate of 5.25%. The term loan was refinanced based on a new five year amortization but with a balloon payment in three years.

In June 2012, the Electric System of WAPA petitioned the Commission for the approval of a refinancing of the remaining balance of the term loan following the Series 2012 Bond issue. Through Order #27/2012 issued by the PSC in July, 2012, the loan was approved. The term loan was refinanced at an interest rate of 5.50% and final maturity on April 2016.

The new allocation of the principal and interest payments of the Notes to be recognized for recovery through the LEAC billing factor for the Electric System is 30% and 70% for the Water System. As of June 30, 2016, the outstanding balance on the Notes was $447 thousand payable within the next 12 months.

University of the Virgin Islands (unaudited)

In June 2011, the University of the Virgin Islands entered into two capital project loan agreements (loan agreements) in the amounts of $44.0 million and $16.0 million, with Rice Capital Access Program, LLC. The purpose of the capital project loans was to: (i) advance refund the University's 1999 Series A Bonds and 2004 Series A Bonds, and (ii) to pay for construction costs of a 100 bed student residence facility and other construction improvement costs of facilities on the St. Thomas and St. Croix campuses. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old outstanding bonds of approximately $4.5 million and an economic gain of $6.8 million.

During fiscal year 2015, UVI entered into two capital project loan agreements for the medical school under Series 2015 3-1 and Series 2015 3-2. UVI also entered into a loan agreement with First Bank of Puerto Rico for a Medical School Loan. A variable rate was assigned to all the loans.

UVI Research and Technology Park Corporation (unaudited)

In February 2013, RTPark obtained a $3.0 million loan from a member. A portion of the loan proceeds were used to repay a previous loan from UVI to complete construction on 64 West Center. This loan has a 6.75% interest rate and is payable over 15 years. Principal payments were not due on the loan until April 2014. The loan is secured by all of RTPark's tangible and intangible property.

11. General Tax Revenue

For the year ended September 30, 2016, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 372,725	$ -	$ -	$ 275	$ 373,000
Real property taxes	47,240	-	-	6,891	54,131
Gross receipts taxes	1,184	157,715	1,622	250	160,771
Excise taxes	128,114	108,996	-	4,869	241,979
Other taxes	63,623	-	-	5,374	68,997
	$ 612,886	$ 266,711	$ 1,622	$ 17,659	898,878
Tax revenue not recognized on the full accrual basis					(679)
Total tax revenue – government-wide					$ 898,199

12. Governmental Fund Balances

Following is a detail of the aggregated fund balances presented in the Balance Sheet – Governmental Funds as of September 30, 2016 (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Federal Funds	Other Governmental	Total
Restricted for:						
Debt service	$ –	$ 257,675	$ –	$ –	$ –	$ 257,675
Capital projects	–	–	190,605	-	–	190,605
General government	–	–	–	-	-	-
Health	-	-	-	-	-	-
Public housing and welfare	-	-	-	-	-	-
Education	-	-	-	-	-	-
Transportation and communication	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Total	–	257,675	190,605	-	-	448,280
Committed to:						
General government	16,121	–	–	–	14,497	30,618
Public housing and welfare	–	–	–	–	327	327
Transportation and communication	–	–	–	–	14,905	14,905
Culture and recreation	392	–	–	–	330	722
Total	16,513	–	–	–	30,059	46,572
Assigned to:						
General government	-	–	–	–	93,984	93,984
Public safety	–	–	–	–	1,405	1,405
Health	–	–	–	–	2,744	2,744
Public housing and welfare	–	–	–	–	6,447	6,447
Education	–	–	–	–	-	-
Transportation and communication	–	–	–	–	8,536	8,536
Culture and recreation	–	–	–	–	857	857
Total	-	–	–	–	113,973	113,973
Unassigned	(89,599)	–	–	(3,077)	(60,885)	(153,561)
Total fund balances	$ (73,086)	$ 257,675	$ 190,605	$ (3,077)	$ 83,147	$ 455,264

The assigned fund balance includes approximately $51.0 million in unexpended encumbrances. Encumbrances are utilized to determine commitments related to unperformed (executor) contracts for goods and services and to prevent the over-spending of an appropriation.

13. Commitments and Contingencies

Primary Government

(a) Collective Bargaining Agreements

Currently, the Government has entered into union contracts with thirteen (13) distinct labor organizations representing government employees in various bargaining units. Collectively, these bargaining units have approximately thirty-nine (39) collective bargaining agreements in existence. Nine (9) bargaining units have not negotiated a collective bargaining agreement with the Government.

Employees in the various bargaining units are not under a single pay plan. Consequently, it is common to have employees performing the same classification of work in different departments and agencies. Of the approximately nine thousand two hundred (9,200) government workers, approximately six thousand nine hundred (6,900) are union members. Virgin Islands statutes governing bargaining with unions requires arbitration in the event an impasse is reached in negotiations. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision.

As of September 30, 2016, the Government has contractual liabilities for retroactive union arbitration salary payments estimated at $195.3 million accruing from fiscal years 1993 through 2010, as established by the Virgin Islands Retroactive Wage Commission. Under Title 24, Section 374(h) of the V.I. Code, the PG may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature.

(b) Federal Assistance Programs

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Monetary and nonmonetary federal financial assistance to governmental funds amounted to approximately $203.4 million and $57.0 million, respectively, for the year ended September 30, 2016.

Receipt of grants and loss reimbursements is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under Uniform Guidance. Disallowances as a result of these audits may become liabilities of the Government.

Management of the Government believes that the future outcome of any changes in federal financial assistance programs will not have a material adverse effect on the basic financial statements.

(c) Compliance Agreement U.S. Department of Education

Since 2006, as a necessary condition for receiving certain grant funds from the U.S. Department of Education (USED), the Government has contracted with a third-party fiduciary agent (TPF), to ensure that the Government manages and administers USED grants in accordance with applicable federal and financial management requirements.

The special conditions prescribed include requirements for the Government to make significant improvements in all aspects of its fiscal management including ongoing updates to the Corrective Action Plan (CAP) and other matters identified by the TPF in its assessment of the Government's readiness to reassume management of the USED funds. The special conditions also require the Government to submit quarterly reports on the progress of the CAP.

(d) Legal Proceedings and Litigation Claims

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government in excess of $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to $250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately $13.8 million for awarded and anticipated unfavorable judgments as of September 30, 2016. Management believes that any liability in excess of amounts recorded will not have a material effect on the basic financial statements.

Changes in the reported provision for legal claims during September 30, 2016, resulted from the following activity (expressed in thousands):

	Beginning Balance at October 1, 2015	New Claims	Claims Payments and Changes in Estimates	Ending Balance at September 30, 2016
Provision for legal claims	$ 23,799	$ 4,984	$ (15,000)	$ 13,783

The breakdown of the provision for legal claims at September 30, 2016, as reflected in governmental activities, is as follows (expressed in thousands):

Current portion	$ 128
Long-term portion	13,655
	$ 13,783

(e) Landfill Closure and Post-Closure Costs

Federal laws and regulations, including the Clean Air Act, 42 U.S.C. § 7401 et seq. (CAA), and regulations promulgated thereunder, including the federal standards set forth in 40 C.F.R. Part 62, Subpart GGG (Federal Plan), and the National Emission Standards for Hazardous Air Pollutants for Municipal Landfill Maximum Achievable Control Technology, set forth in 40 C.F.R. Part 63, Subpart AAAA (Landfill MACT), and the Solid Waste Disposal Act, 42 U.S.C. § 6901 et seq. (RCRA), and regulations promulgated thereunder, including federal municipal solid waste landfill operating, closure, and post-closure criteria set forth in 40 C.F.R. Part 258, and three EPA administrative orders issued pursuant to RCRA § 7003(a), 42 U.S.C. § 6973(a), and Territorial laws and regulations, including V.I. Code Title 19, Chapter 56 (Solid and Hazardous Waste Management), Title 12, Chapter 9 (Air Pollution Control), and Title 12, Chapter 21 (Virgin Islands Coastal Zone Management), and regulations promulgated thereunder, require the Government to construct and operate certain environmental control systems and otherwise comply with certain requirements during operation of each of its landfill sites, properly close the site (including placement of a final landfill cover) when the landfill (or portion thereof) stops accepting waste, and perform certain post-closure maintenance and monitoring functions at the site for 30 years following closure. Compliance costs during the operational phase will be paid prior to closure.

Although closure and post-closure costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. The $90.9 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2016, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care as of September 30, 2016.

The estimated used capacity and expected closure of each of the Government landfills is as follows:

Landfill	Estimated Used capacity	Estimated Closure date
Bovoni	98%	2020
Anguilla	97%	Closed
Susannaberg	100%	Closed

The actual cost to perform closure and post-closure may be higher due to inflation, changes in technology, or changes in regulations. The Government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The Government began making annual contributions to a trust in fiscal year 2007 to finance closure and post-closure costs. The Government expects that future inflation costs will be paid from interest earnings on these annual contributions and other financing measures.

However, if interest earnings and financing measures should prove to be inadequate, or additional post-closure care requirements are determined due to changes in technology or applicable laws or regulations, these costs may need to be recovered through charges to future landfill users.

(f) Wastewater Treatment Plant Consent Decree

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation required that the new St. Croix wastewater treatment plants be completed by the end of 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. The cost of both facilities was estimated at approximately $50 million. In January 2004, the Government's Legislature authorized the creation of the VIWMA for the purpose of meeting environmental requirements of wastewater treatment in the U.S. Virgin Islands. On December 2004, the PFA issued revenue bonds amounting to $94.0 million for the purpose of constructing and rehabilitating wastewater treatment plants. The treatment facilities were completed in July 2007 and January 2008 at a cost of approximately $27.0 million and $29.0 million for the St. Croix and the St. Thomas treatment facilities, respectfully.

The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the stipulation.

(g) Memorandum of Understanding – EPA

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System (TPDES) permit for its St. Croix distillery operations provided that the Government make certain funding available to (i) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. (Cruzan Rum) effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge, (ii) identify practicable, available, reliable, and cost-effective potential mitigation measures, and (iii) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the Virgin Islands Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate.

Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to $6.0 million in the aggregate, commencing on October 13, 2003. Subsequently the Government entered into a three-year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA. At the conclusion of the MOU treatability study period, the PG agreed to reissue the TPDES permit to Cruzan Rum in 2008 with the requirement that the rum distillery design and construct a treatment facility for the rum distillery effluent within three years. PFA issued the Series 2009 Cruzan Bonds to fund the treatment facility which is currently operating under a 2013 TPDES permit.

(h) Workers' Compensation Liability

The Government is exposed to risk of loss related to workers' compensation claims. The Government is self-insured for this risk. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the claims liability amount in fiscal year 2016, as recorded in the Government Insurance Fund are as follows (expressed in thousands):

Claims payable, beginning of year	$ 32,053
Incurred claims and changes in estimates	10,921
Payments for claims and adjustments expenses	(4,515)
Claims payable, end of year	$ 38,459

The Government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(i) Bond Credit Ratings

On June 30, 2016, Moody's downgraded the Territory's matching fund bonds to B1 & B2 from Baa2 and Baa3. The rating downgrade reflects a closer alignment of the special tax ratings with the Government's general credit position and repeated deficit financings and a large unfunded pension liability.

On December 2, 2016, Fitch downgraded the Territory's gross receipts tax bonds to BB from BBB. The rating agency pointed to the Government's use of bond issuances to fund operating needs as the reason for the downgrade. On January 20, 2017, Fitch further downgraded the gross receipts bonds to BB- from BB.

On December 9, 2016, Standard & Poor's Global Ratings (S&P) downgraded the Territory's gross receipts tax bonds to BBB- from B. S&P cited the weak economic conditions in the Territory, declining debt coverage, and the potential that additional debt will further dilute the coverage.

(j) Operating Agreement – Limetree Bay Terminals, LLC

In January 2012, Hess Oil Virgin Islands Corporation (Hess Oil) announced that it would close its oil refinery on the island of St. Croix and the facility would serve as a storage terminal. The company amended tax returns for the three years before the closing, and a legal dispute arose with the Government over amounts due to, or from, the company in connection with the amended returns and other requirements of Hess Oil's agreement with the Government. On December 1, 2015, the Government settled its dispute with Hess Oil. The company agreed to transfer to the Government 330 acres of land near the oil terminal (estimated value $21.0 million), 130 housing units at the oil terminal (estimated value $27.0 million), and a vocational school and a community center (both estimated at a value of $1.0 million) for a payment in lieu of taxes (PILOT) valued at $50.0 million.

On December 1, 2015, the Government entered into an operating agreement with the new operator of the oil terminal, Limetree Bay Terminals, LLC (Limetree). Limetree agreed to investigate refurbishing and reopening the terminal, with an investment of $125.0 million. Limetree paid $220.0 million as a payment in lieu of taxes, $9.0 million as a reimbursement for contingent claims, and agreed to invest $6.0 million in the construction of a bitumen tank at the facility. As part of the operating agreement Limetree receives exemption from property taxes, income taxes, and local taxes. Limetree will be subject 10% of terminal revenues, due to the Government

Should the oil refinery reopen, Limetree will be required to pay 17.5% of refinery income to the Government on a quarterly basis. If there is a change in the control of Limetree, the Government is to receive 10% of the transaction value of the exchange, not to be less than $25.5 million.

Pension Trust Fund

(a) Pension Reform

In response to a recommendation in a September 27, 2011 audit report from the Office of the Inspector General and U.S. Department of Interior, the PG formed a Pension Reform Joint Task Force (the Task Force) to address the declining fiscal condition of the GERS. The Office of the Inspector General's audit report had concluded that, due to insufficient contribution levels and an unbalanced ratio of active to retired members, the retirement system of the U.S. Virgin Islands may default as soon as the year 2025.

The Task Force has submitted recommendations to the Legislature to: (i) increase government and employee contributions towards pension benefits, (ii) raise contribution rates for senators and judges, (iii) reduce retiree current benefits by 10 percent, (iv) increase the early retirement age from 50 to 55 and the regular retirement age from 60 to 65, (vi) limit the cost of living increase, and (vii) change the formula used to calculate benefits.

On February 5, 2015, GERS increased employee contribution rates by 1% to be implemented over a three-year period and to be effective for three years. The Government's contributions to the system increased by 3% from 17.5% to 20.5%.

In March 2016, the Office of the Virgin Islands Inspector General issued a report on the alternative investment program administered by GERS. The report concluded that the non-traditional investments of the retirement system were subject to higher risks than other GERS assets.

In September 2016, GERS sponsored a public summit to present projections of investment returns and future benefit payments for the system. Actuarial reports indicate that the assets of the system may be fully depleted by the year 2023.

Component Units

(a) Virgin Islands Water and Power Authority – Electric System

In September 1989, WAPA Electric facilities were damaged by Hurricane Hugo. WAPA reconstructed the facilities with proceeds from insurance and the Federal Emergency Management Agency (FEMA). Subsequent to the receipt of funds, Federal Emergency Management Agency (FEMA) de-obligated approximately $7.9 million in questioned costs. Approximately $2.6 million of these questioned costs related to an oil spill that was subsequently settled with FEMA. During 1998, WAPA submitted a second appeal for $4.4 million of the remaining questioned costs and agreed to refund approximately $900 thousand of questioned costs to FEMA. During 1999, FEMA denied the second appeal and formally closed the disaster claim. WAPA has recorded a liability for $4.1 million related to the questioned costs. FEMA has not made a formal request for repayment of the funds.

In October 2008, WAPA Electric facilities on the island of St. Croix were damaged by Hurricane Omar. WAPA expended $2.7 million for storm cleanup and system restoration through June 2010. The Territory was declared a federal disaster after the hurricane and is eligible for reimbursement of 75% of what was expended according to the category of the damage. WAPA Electric has recorded a receivable from FEMA through the Office of Management and Budget – Public Assistance (OMB-PA) amounting to approximately $1.2 million.

In August 2010, WAPA Electric facilities were damaged by Hurricane Earl. WAPA has expended over $2.0 million for storm clean-up and restoration, which was completed in October 2010. The Territory was declared a Federal disaster area after the Hurricane and is eligible for reimbursement of 75% - 80% of what was expended according to the category damage. WAPA recorded a receivable of $1.1 million from FEMA through the Virgin Islands Territorial Emergency Management Agency (VITEMA) Public Assistance Program as of June 30, 2014.

WAPA has signed purchase power agreements with several companies to integrate a combined 18MW of solar electricity into the WAPA's electrical grid system. The agreements are for between 20 and 25 years, expiring between 2022 and 2027. WAPA will not own the solar assets, but will be able to purchase solar generated electricity at contracted rates.

On September 30, 2011, WAPA Electric entered into a Memorandum of Agreement (MOA) with viNGN, Inc., a Virgin Islands corporation and wholly owned subsidiary of the PFA. The MOA terms call for WAPA Electric to provide in-kind contributions in connection with a federal grant received by viNGN, Inc. The in-kind contributions consist of the use of certain facilities, equipment, and communications infrastructure. The total in-kind match value budgeted by WAPA was $15.2 million.

The term of the MOA is twenty-five (25) years upon execution, with two additional twenty-five (25) year terms unless either party provides a written notice of non-renewal not less than twelve (12) months, but no sooner than twenty-four (24) months prior to the expiration of the original term or any additional term.

In July 2013, the Governing Board of WAPA voted unanimously to approve an agreement between WAPA and the Vitol Group to build new infrastructure, convert existing turbines, as well as store and supply fuel for propane-based power generation. The project is designed to reduce WAPA's fuel costs by 30% and therefore intended to allow for significant savings to WAPA's rate payers.

The project budgeted costs of approximately $90.0 million are to be paid upfront by Vitol Group. In November 2014, the project budget was revised to $150.0 million. WAPA will have the right to use the power generation facilities and obligation to repay the majority of the ultimate project costs fronted by Vitol based on a 10 year amortization schedule (with the option to complete payment in 7 years) to be finalized once the project has reached substantial completion, which includes construction and successful testing. The project has revised targeted completion dates in fiscal year 2017.

(b) Virgin Islands Water and Power Authority -Water System

In 2011, the Water System of WAPA entered into two agreements with a private company to build, operate and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to WAPA. The agreements both have 20-year terms expiring through 2032. The amount paid by the Water System to Seven Seas Corporation under the agreements was $8.2 million for 2016.

(c) Virgin Islands Port Authority

In 2002, the Federal Aviation Administration (FAA) conducted an on-site wildlife evaluation of the Anguilla Landfill, which is located next to the St. Croix airport. The FAA determined that the landfill posed an environmental and navigational threat to the airport due to flocks of birds that reside in the landfill area. The FAA stated it may require VIPA to repay $9.3 million in federal grants and has refused further discretionary grants for the airport until VIPA shows progress toward closing the landfill. The matter was mitigated in fiscal year 2013, and VIPA is now eligible for grants.

The landfill is under the jurisdiction of another agency of the Government, the VIWMA. Thus, the Government and the VIPA proposed a Compliance Plan which has been accepted by the FAA. Under the Compliance Plan, both VIWMA and the VIPA are jointly responsible for maintenance of the surrounding areas to reduce the risk that flocks of birds could cause a plane crash and repossess adjacent miscellaneous properties.

(d) Waste Management Authority

As of September 30, 2016, the Government has recorded a liability of $5.9 million related to the stipulated penalties associated with a consent decree.

(e) Governor Juan F. Luis Hospital & Medical Center

The Governor Juan F. Luis Hospital and Medical Center owns a 40% interest in a radiology practice that operates within the hospital. The radiology practice pays rent to the hospital and the hospital pays for service to hospital patients. As of September 30, 2016, the hospital owed the radiology practice $8.5 million.

(f) Other

Various discretely presented component units are presently defendants or codefendants in various lawsuits. The financial managers of the component units have advised the PG that any adverse outcome involving a material claim is expected to be substantially covered by insurance. Government property is exempt from lien, levy, or sale as a result of any judgment under the V.I. Code.

14. Retirement Systems

Primary Government

Effective October 1, 2014, the Government implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources.

(a) Plan Description and Benefits

Full time employees of the Government are members of GERS, a cost sharing, multiple-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the V.I. Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members. The plan covers all employees of the Government except employees compensated on a contract fee basis, casual, per diem or provisional and part time employees who work less than 20 hours per week. Persons over the age of 55 may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after 10 years of service. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the plan:

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

Regular employees who have completed 30 years of credited service or have attained age 60 with at least 10 years of credited service are eligible for a full service retirement annuity. Members who are considered "safety employees" as defined in the Code are eligible for full retirement benefits when they have earned at least 20 years of service or have reached the age of 55 with at least 10 years of credited service. Regular and safety employees who have attained age 50 with at least 10 years of credited service may 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 credited service within the last ten years of service, subject to the maximum salary limitations in effect during such service. Average compensation for Tier II members is determined by averaging the most recent five years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during the service.

The maximum annual salary that can be used in this computation is $65,000, except for senators and judges, whose annual salary is used.

GERS is a separate and independent agency that is included for financial reporting purposes as a blended pension trust fund of the PG. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the Employees' Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, St. Thomas, Virgin Islands 00802.

(b) Funding and Contribution Policy

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required 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.

Effective January 1, 2015, Tier I member contributions increased by 1% to 9% of annual salary for regular employees, and will increase an additional 1% on January 1, 2016 and January 1, 2017. Member contributions for Tier I senators will increase 1% to 10% on January 1, 2015, and will increase an additional 1% on January 1, 2016 and January 1, 2017. Member contributions for Tier I judges will increase by 1% to 12% on January 1, 2015, and will increase an additional 1% on January 1, 2016 and January 1, 2017. Member contributions for safety (hazardous employees) will increase by 1% to 11% on January 1, 2015, and 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. Member contributions for Tier II senators will increase 3% to 14% on February 5, 2015. Member contributions for Tier II judges will increase by 3% to 14% on February 5, 2015. Member contributions for safety (hazardous employees) will increase by 1% to 11.625% on February 5, 2015, 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.

Both the defined benefit pension plan administered by GERS, and the PG have a fiscal year that ends on September 30th. Following guidance provided in GASB statement No. 68, the following time frames are used to measure and report the PG's pension liability:

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

The PG is considered an employer of the plan with a proportionate share of 75.2916% as of September 30, 2015. The PG's percentage was determined based on its respective contributions as a percentage of the total contributions to the plan. The PG's proportionate share of employer contributions recognized by GERS was $51.5 million for the plan's fiscal year ended September 30, 2015.

(c) Pension Liabilities, Expense, and Deferred Outflows/Inflows of Resources

As of September 30, 2016, the actuarially calculated net pension liability of the PG was $3.1 billion. The net pension liability is measured as of September 30, 2015, and the total pension liability is actuarially computed as of October 1, 2015. For the measurement date September 30, 2015, there was a change in assumptions for calculating the proportionate share.

Actuarially determined proportionate share information was estimated by management of GERS based on an average three-year respective share of the PG's relative contributions. For the measurement date September 30, 2014, proportionate share information was estimated by management of GERS based on the respective share of single year contributions at the measurement date.

For the year ended September 30, 2016, the Government recognized $204 million of pension expense, inclusive of amortization of deferred outflows of pension related items.

Following is a schedule of deferred outflows and deferred inflows allocated to the Government in the computation of the net pension liability for the year ended September 30, 2016 (expressed in thousands):

Governmental Funds	Deferred Outflows	Deferred Inflows
Difference between expected and actual experience	$ 77,835	$ -
Net difference between projected and actual investment earnings on pension plan investments	57,233	-
Changes in assumptions	568,386	-
Changes in proportion and differences between contributions and proportional share of contributions	346	1,387
Contributions made subsequent to measurement date	68,291	-
Total	$ 772,091	$ 1,387

Amounts reported as deferred outflows and inflows, exclusive of contributions made after the measurement date, will be recognized in pension expense as follows (expressed in thousands):

Year Ending September 30,	
2017	$ 161,049
2018	161,049
2019	161,049
2020	115,228
2021	104,038
Total deferred net outflows of resources	$ 702,413

(d) Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of the measurement date at September 30, 2015 is provided below. Refer to the October 1, 2015 actuarial valuation report for a complete description of all other assumptions, which can be found on GERS' website.

September 30,	2015
Inflation Rate	2.50%
Salary Increases	3.25% including inflation
Actuarial Cost Method	Entry age normal
Expected Rate of Return	7.00%
Municipal Bond Yield	3.71%
Discount Rate	3.84%
Mortality Table	RP-2014 Blue Collar

(e) Investment Rate of Return

The long-term expected rate of return of 7.00% on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date of September 30, 2015, are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Domestic equity	28%	6.82%
International equity	10%	8.44%
Fixed income	26%	1.72%
Cash	4%	1.12%
Alternatives	32%	6.50%
Total	100%	

(f) Discount Rate

The discount rate used to measure total pension liability was 3.84% as of September 30, 2015. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the increases in the employee contribution rates effective January 1, 2017. 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's long-term expected rate of return on pension plan investments of 7.00% 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, 2015, that rate was 3.71%.

(g) Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Following is a schedule of net pension liability for the Government calculated using the discount rate of 3.84%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.84%) or one percentage point higher (4.84%) than the current rate for the year ended September 30, 2016 (expressed in thousands):

	1% Decrease (2.84%)	Current Discount (3.84%)	1% Increase (4.84%)
Net pension liability	$ 3,583,068	$ 3,065,617	$ 2,638,893

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

(h) Early Retirement Incentive Program

In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994, and December 5, 1995. Among other matters, the legislation allows a member of GERS who has a combined aggregate number of years of credited service plus number of years of age, equal to at least 75 years as of the date of the legislation, to retire without reduction of annuity. Members, who have attained the age of 50 with at least 10 but less than 30 years of credited service, may add an additional 3 years to their age for this computation. Members with 30 years of service or who can retire without penalty under the V.I. Code shall have their average compensation increased by 4 percentage points.

For each employee electing to retire pursuant to Section 8(a) of the Early Retirement Act of 1994 (the Act), the Government contributes to GERS, on a quarterly basis, an amount equal to the employer and employee contributions that would have been made until the employee reached the age of 62 had the employee not elected to retire under this provision.

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the three years used to compute the employee's average compensation figure, plus a sum of $5,000.

Based on this calculation, the amount due to GERS was $26.9 million and has been remitted to GERS. The actuaries of GERS have determined that the specific funding provided under the Act is inadequate to cover the costs of the program. GERS is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law, which provides that the Government will compensate GERS for the costs of any special early retirement program.

Postemployment Benefits

In addition to the pension benefits described above, the Government provides other postemployment benefits (OPEB) of healthcare, prescription, dental and life insurance coverage. These benefits are provided in accordance with Title 3, Chapter 25, Subchapter VIII of the V.I. Code as part of a cost-sharing, multiple employer defined benefit OPEB plan, in which most component units of the PG participate and contribute. All employees who retire from government service after attaining age 55 with at least 30 years of service, except for policemen and firemen who can retire with at least 20 years of service, are eligible for these benefits.

The PG's postemployment benefit cost is calculated on the annual required contribution of the PG, an amount actuarially determined. The first actuarial valuation was prepared as of October 1, 2007, in accordance with provisions of GASB Statement 45 - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and has been updated by the actuarial consultant on October 1, 2009, 2011, and 2013.

Based on census data included in the October 1, 2013 actuarial valuation of OPEB, approximately 7,862 active employees, 7,869 service retirees, 2,051 spouses of service and disability retirees covered for medical and dental benefits, 295 disability retirees, and 215 deferred vested (i.e., non-retired employees who have already terminated employment with the PG, but who are eligible for medical and life insurance benefits when they subsequently reach the qualifying age) meet the eligibility requirements of OPEB.

Healthcare, prescription, and dental insurance is provided through negotiated contracts with private insurance companies. Participants in the plan may elect coverage for their spouses and dependent children. Participants are required to contribute 35% of medical, prescription, and dental premiums.

Effective October 1, 2013, separate medical premiums for non-Medicare retirees and Medicare retirees are being used to determine contribution requirements, instead of a premium blended with active costs. Retirees of UVI that participate in the 403(b) retirement plan may obtain coverage on a fully contributory basis. Life insurance is offered to retirees on a fully contributory basis.

The contribution requirements of plan members and the PG are legislated within the V.I. Code, and may be amended, by the Virgin Islands Legislature. The plan is a non-funded pay-as-you-go plan, and expenditures are paid as they become due. For the year ended September 30, 2016, the Legislature budgeted, and paid $37.4 million for retiree health insurance payments.

The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, and amortize any unfunded actuarial liabilities over a period not to exceed an open thirty (30) year period.

(a) Annual OPEB Cost and Net OPEB Obligation

The following table shows the components of the PG's annual postemployment benefits cost, percentage of OPEB costs contributed, and the net OPEB obligation (expressed in thousands):

Fiscal Year	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2012	$ 80,322	45.65%	$ 245,079
9/30/2013	$ 71,176	43.95%	$ 284,974
9/30/2014	$ 65,247	47.77%	$ 319,056
9/30/2015	$ 67,713	43.63%	$ 357,224

(b) Actuarial Accrued Liability and Funding Status

Actuarial Valuation Date	October 1, 2013
Actuarial Accrued Liability (AAL)	$ 1,047,734
Unfunded AAL	$ 1,047,734
Funded Ratio	0%

The PG's obligation to provide health insurance to retirees is an unfunded plan. The actuarial valuation of the amount required to fund the plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Estimated annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the PG and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the first actuarial valuation dated October 1, 2007, liabilities at October 1, 2008 were rolled back to October 1, 2007. In subsequent valuation reports, actual benefit payments were used for the fiscal years ended September 30, 2009 through 2015.

Covered health care and dental care expenses were assumed to increase in future years based on the claims experience for fiscal year 2015, and a trend assumption beginning at 7.5% for pre-Medicare retirees, 6.5% for post-Medicare retirees, 6.5% for dental benefits, and grading down to an ultimate rate of 4.5% in fiscal year 2021 and after. The entry age normal actuarial cost method with costs on a level percentage of payroll basis was used to determine the annual required cost of OPEB benefits to retirees. Amortization is over an open thirty (30) year period as a level percentage of payroll. Payroll growth is assumed to be 3% per year for purposes of amortization.

This method is consistent with the cost method used by GERS and typically produces the most level annual required contribution each subsequent year as a percentage of payroll. The normal cost was rolled back using the ultimate trend rate. A discount rate of 3.5% per annum was used, compounded annually.

The valuation assumed that the annual unit cost per covered individual (i.e., retiree or spouse) for medical, prescription drugs and dental care for the fiscal year ended September 30, 2015, was $7,166, $1,547, and $200 for retirees under age 65 and $999, $1,578, and $200 for retirees over age 65.

The normal cost reflects the average age of the covered population and is based on claims experience for the fiscal year ended September 30, 2015, with a two-thirds weighting applied to the more recent year.

Combined experience and a combined cost were used for the pre-65 and post-65 populations. A composite cost was developed for retirees and spouses by combining their claim experience. Dependent children claims were included in developing the composite retiree and spouse cost. Costs were adjusted to reflect the anticipated lag in claim payment. An administrative loading was added as well.

WICO Employee Retirement Plan

The WICO Employee Retirement Plan (the Plan) is a defined contribution retirement and savings plan sponsored by the Company, covering the Company's employees not governed by a collective bargaining agreement. The Plan is administered by Weber Shapiro & Co. LLP. Under the provisions of the Plan, the employees must contribute at least 3% of their gross compensation and may contribute up to 7% of their compensation. The Company matches 3% of the employees' contribution plus a non-elective distribution at the discretion of the Company, which is divided among eligible employees, proportionate to compensation.

Required contributions to the pension and savings plan made and charged to operations were approximately $119 thousand for the year ended September 30, 2016. Total contributions made to the Plan by the covered employees during 2016 amounted to $132 thousand. The Company does not offer other post-retirement benefits to its employees.

Component Units

(a) University TIAA-CREF Defined-Contribution Plan (unaudited)

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. Total contributions made by the University and plan members to TIAA-CREF and GERS amounted to $2.5 million for the fiscal year ended September 30, 2016.

15. Liquidity

Primary Government

At September 30, 2016, the Government reported an unrestricted net deficit in governmental activities amounting to $4.2 billion. The net deficit resulted from: (i) the 2008 financial markets collapse and subsequent recession resulting in a reduction in income tax revenue and increase in unemployment, (ii) increases in costs of operations, and (iii) the negative effect of certain Internal Revenue Service regulations resulting in a reduction of economic development companies operating in the Territory. Additionally GASB Statement No. 68 required the reporting of pension liabilities and pension expense based on actuarial computations of those amounts. As a result of this accounting standard, the Government has included long-term pension liabilities amounting to $3.1 billion in the current fiscal year, and has reported additional pension expense of $204.0 million.

Following is a summary of the Government's unrestricted net deficit for governmental activities for fiscal years 2014 through 2016:

Fiscal Year	**Governmental Unrestricted Net Deficit**	**(Increase)/ Decrease**
2014	$ (1,934,659)	$ 96,854
2015	$ (4,152,336)	$ (2,217,677)
2016	$ (4,247,570)	$ (95,234)

The Government has initiated specific actions to improve its liquidity and future cash flows. The Government established the Office of Economic Opportunity to generate jobs, to promote energy efficient appliances and automobiles, and to improve infrastructure. The Government has also legislated increases in local taxes such as the gross receipts taxes and hotel taxes.

General Fund

At September 30, 2016, the Government reported a fund deficit in the General Fund of $73.1 million. This fund deficit balance represents an increase in the deficit by $14.3 million from the preceding fiscal year, mainly due to the reduction in tax collections and increase in spending.

Following is a summary of the General Fund deficit:

Fiscal Year	**Committed**	**Assigned**	**Unassigned**	**Total**
2014	$ 12,126	$ -	$ (99,794)	$ (87,668)
2015	$ 14,687	$ 576	$ (74,073)	$ (58,810)
2016	$ 16,513	$ -	$ (89,599)	$ (73,086)

WICO

The Company is in a negative working capital position as of September 30, 2016. The Company is a component unit of PFA which experienced credit rating downgrades due to the financial and budgetary challenges experienced by the Government. In March 2017, the Legislature addressed deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five year plan of revenue initiatives and cost-cutting measures. To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition.

viNGN

viNGN is a component unit of PFA which maintains an advance payable to PFA of approximately $36 million as of September 30, 2016. PFA experienced credit rating downgrades due to the financial and budgetary challenges experienced by the Government. In March 2017, the Legislature addressed the deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five year plan of revenue initiatives and cost-cutting measures. To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition.

Component Units

(a) Virgin Islands Water and Power Authority – Electric System

Management of the Electric System (the System) has been attempting to solidify its financial condition through the implementation of a multi-pronged action plan. The System plans to develop a constant revenue stream to liquidate its debt, as opposed to one-time payments such as the receipt of $8.0 million received from the PG for past due obligations of the Territory's hospitals. The System has reached out to the current Administration's financial team of the Governor who are working with the System to secure timely payments and to fully integrate the Single Payer Utility Fund, the mechanism by which regular payments will be made.

Management has also submitted revised base rate increases which will produce additional liquidity and build a working capital reserve. The plan also includes a strategy to right-size the System and the building of operational reserves. These rate increases will allow the Electric System to build a 45-day reserve over a two-year period.

The System is also taking action to secure financing for the acquisition of new generators slated to improve reliability and efficiency and meet shifts in energy demands going forward.

(b) Virgin Islands Government Hospital and Health Facilities Corporation

During the year ended September 30, 2016, the Roy L. Schneider Hospital (the District) experienced a deficit of $13.6 million. The District's current liabilities exceed current assets by $30.3 million as of September 30, 2016. The District operates the only hospital on St. Thomas and a health center on St. John, providing health care related services to approximately 50,000 residents.

Management of the District believes the Hospital and Health Center are necessary providers of services and, according to statues, the PG is required to provide health care services to all residents that need it. The District's board of directors and management are implementing their efforts to improve the District's financial stability by closely monitoring cash flow. This includes multiple internal initiatives and development of external partnerships with industry expertise to improve operation efficiencies, evaluate change capture and pricing improvements, reduce accounts receivable collection time, and evaluate Medicare reimbursement options and opportunities.

Additionally, the Governor Juan F. Luis Hospital and Medical Center (the Hospital) has incurred losses for several years and currently has significant liabilities owed to vendors and related PG component units such as the Virgin Islands Water and Power Authority. The liabilities have continued to increase over the last several years. Management of the Hospital is considering several alternatives for mitigating these conditions during the next year. These include an infusion of capital through several options including internal hospital operations, central government funding, patient accounts receivable leveraging, affiliation or management agreements with larger hospital systems, and negotiations with vendors on past due accounts. Management is also developing plans for cost containment, seeking concessions from vendors, and seeking an increase in financial support from the PG.

16. Fund Deficit

Primary Government

The following non-major funds have a net fund deficit as of September 30, 2016 (in thousands):

Governmental Funds

Rural Library Extension	$ 572	Water & Electric System Projects	$ 1,698
Employment Security Administration	2,233	Sewer System Fund	175
Federally Aided Education Program	9,599	District Potable Water Fund	4,962
Air & Water Pollution Control	6,568	Paternity And Child Support	11,670
Virgin Islands Planning Board Projects	3,000	District Street Light Fund	16,531
Highway Safety	4,600	Virgin Islands Law Enforcement	4,429
Virgin Islands Energy Office	3,655	Forensic Science	74
Virgin Islands National Guard Federal		Vocational Rehabilitation	1,848
and State Agreement	2,760	Hurricane Hugo Insurance Claims	3,908
Food Stamp Welfare	2,434	Virgin Islands Army National Guard	2,266
Federal Programs/Department		Emergency Drought Relief	160
Conservation	4,052	Outdoor Recreation Program	32
Federal Aided Community Action Agency	187	Narcotics Strike Force Forfeiture	1
Commission On Aging	50	Small Business Development	
Elementary/Secondary Education	19	Administration Managerial And	
Job Training Partnership		Technical Assistance	8
Act Of 1983-1984	8,614	Juvenile Detention Center Fund	
Civil Defense Protection	849	Non-Lapsing	14
Health Information Council Assistance	18	Natural Resource Reclamation	2,205
Drug Education Training Program	123	Section 12 Bond Proceeds	24,547
Federal Health Program Not On Federal		Road Fund	6,330
Letter Of Credit System	489	Major Repair And Improvement	58
Boating Safety Program	584	Fishery and Wildlife Projects	33
Fish and Game	24		
		Net fund deficit	$ 131,379

Proprietary Funds

Frederiksted Small Business Fund	$ 164
Altona Community Development Fund	3
Housing Construction Revolving	7,653
Emergency Housing Fund	82
Virgin Islands ID Registration Fund	12
Virgin Islands Lottery	252
Consumer Protection Fund	200
Virgin Islands Housing Finance Authority	2,898
Homestead and Home Revolving Fund	344
Net fund deficit	$ 11,608

Component Units

Beginning net position of certain discretely presented component units was restated to correct account balances reported in prior years as follows (expressed in thousands)

	Beginning Net Position		
Component Unit	**As Previously Reported**	**Adjustments**	**As Restated**
Virgin Islands Housing Authority	$ 83,388	$ (47,854)	$ 35,534
Virgin Islands Port Authority	153,651		153,651
Virgin Islands Water and Power:			
Electric System	(146,659)	-	(146,659)
Water System	14,752	-	14,752
Virgin Islands Government Hospital and Health Facilities Corporation:			
Roy L. Schneider Hospital	(88,590)	-	(88,590)
Juan F. Luis Hospital	(95,653)	-	(95,653)
University of the Virgin Islands (unaudited)	13,038	58	13,096
Other component units*	171,604	2,299	173,903
Net position	$ 105,531	$ (45,497)	$ 60,034

**University of the Virgin Islands Research and Technology Park Corporation (unaudited)*

17. Subsequent Events

Primary Government

On October 1, 2016, PFA entered into two series of notes with Banco Popular de Puerto Rico, the Series 2016A-1 and Series 2016A-2 Notes in an aggregate amount of $10 million to meet first responder needs of the primary Government. The Series 2016A-1 and Series 2016A-2 are secured by the pledge of gross receipts taxes, and mature no later than sixty (60) months from the date of issuance at a variable interest rate based on the 90-day LIBOR plus 375 basis points. Principal and interest are to be paid in monthly installments commencing on the first day of the first full month following each respective draw from the Notes.

On October 26, 2016, PFA entered into a Memorandum of Understanding (MOU) with the Virgin Islands Waste Management Authority (VIWMA) in connection with an order of the Virgin Islands District Court for PFA to establish a Landfill/Solid Waste Remediation Fund to pay for urgent projects at the Territory's landfills. The court order requires PFA to establish a separate escrow account in the amount of $3.1 million as a stipulation of the order. PFA is to disburse monies from this fund to reimburse VIWMA for projects mandated by the court order.

On October 27, 2016, PFA issued a short-term ninety (90) day loan in the amount of $750 thousand without interest or fees to the VIWMA. The loan will be used for working capital of VIWMA.

On November 14, 2016, the U.S. Treasury refunded to PFA $1.73 million as it related to an overpayment of arbitrage payments made in a prior year related to the Series 2004 Bonds. The recovery represents the return of an excess rebate that was paid by PFA to the U.S. Treasury due to a decline in the investment experience of the bonds in periods subsequent to the original payment of arbitrage.

On November 16, 2016, the Third Circuit of the U.S. Court of Appeals ruled in favor of certain union and other collective bargaining plaintiffs in connection with a two-year 8% salary reduction of Government employees earning more than $26 thousand in 2011 and 2013. Following the 2008 global recession, the Legislature enacted the Economic Stability Act of 2011 to address budget shortfalls, including the 8% two-year salary reduction. The Court reversed a previous District Court order in favor of the Government, and held the salary reduction to be unconstitutional. The case has been remanded to the District Court to reconsider its holding with respect to the plaintiff's Territorial claims, specifically the Public Employee Relations Act.

On November 26, 2016, PFA extended an irrevocable standby letter of credit in favor of Delta Airlines, Inc. amounting to $650 thousand with First Bank Puerto Rico through November 26, 2017. The letter of credit was established under a Revenue Guarantee Agreement (Agreement) between Delta Airlines, Inc. and the U.S. Virgin Islands of Tourism as part of an agreement for Delta Airlines, Inc. to continue flights to the island of St. Croix.

On December 31, 2016, the matching fund excise tax rate of $13.25 per proof gallon of rum sold in the United States returned to the statutory rate of $10.50 per proof gallon. In the past, Congress has regularly acted to extend expired temporary tax provisions. As of the date of this report, Congress has not acted to extend the temporary rate.

On February 3, 2017, the Virgin Islands Department of Labor was placed on high-risk grantee status by the U.S. Department of Labor. High-risk grantee status is an administrative designation used by federal agencies to indicate unsatisfactory performance in the management of federal grants.

Management's Evaluation

Management has evaluated any events or transactions occurring after September 30, 2016, the statement of net position date through June 27, 2017, the date the financial statements were available to be issued, and noted that there have been no additional events or transactions which would require adjustments to or disclosure in the Government's financial statements for the year ended September 30, 2016.

Required
Supplementary Information

Government of the United States Virgin Islands

Schedule of Funding Progress

Postemployment Benefits Other Than Pensions

Actuarial valuation Date	(a) Actuarial value of value of Assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial Accrued Liability (a)+(b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
10/1/2007	$ –	$ 976,455,000	$ 976,455,000	–	N/A	N/A
10/1/2009	$ –	$ 1,069,562,000	$ 1,069,562,000	–	$ 418,467,000	255.59%
10/1/2011	$ –	$ 1,133,327,000	$ 1,133,327,000	–	$ 403,389,000	280.95%
10/1/2013	$ –	$ 982,484,000	$ 982,484,000	–	$ 298,873,000	240.55%

Additional Note Disclosure - Annual OPEB Cost and Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2008	$ 78,185,000	40.36%	$ 46,629,000
9/30/2009	$ 82,004,000	42.34%	$ 93,195,000
9/30/2010	$ 85,946,000	42.89%	$ 143,002,000
9/30/2011	$ 89,962,000	35.06%	$ 201,423,000
9/30/2012	$ 80,322,000	45.65%	$ 245,079,000
9/30/2013	$ 71,176,000	43.95%	$ 284,974,000
9/30/2014	$ 65,247,000	47.77%	$ 319,056,000
9/30/2015	$ 67,713,000	43.63%	$ 357,224,000

Government of the United States Virgin Islands

Schedule of Net Pension Liability

September 30, (in thousands)	**2016**	2015
Primary Government's proportion of the NPL	**75.2916%**	75.2803%
Primary Government's proportionate share of the NPL	**$ 3,065,617**	$ 2,323,163
Primary Government's covered-employee payroll	**$ 277,091**	$ 267,698
Primary Government's proportionate share of the NPL as a percentage of its covered-employee payroll	**1,106%**	868%
Plan fiduciary net position as percentage of the total pension liability	**19.58%**	27.26%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the measurement date (September 30 of the previous year).

Government of the United States Virgin Islands

Schedule of Contributions

September 30, (in thousands)	**2016**	**2015**
Actuarially required contributions of the Primary Government	$ 186,089	$ 150,628
Contributions in relation to the statutorily required contributions	68,291	64,357
Contribution deficiency (excess)	$ 117,798	$ 86,271
Primary Government Covered-employee payroll	$ 301,104	$ 267,698
Contributions as a percentage of covered-employee payroll	22.68%	24.04%

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the latest fiscal year.

Government of the United States Virgin Islands

Schedule of Revenues and Expenditures – Budget and Actual
Budgetary Basis – General Fund
(in thousands)

Year Ended September 30, 2016	Original Budget	Revised Budget	Actual	Variance
Revenues				
Taxes	$ 623,287	$ 623,287	$ 612,886	$ (10,401)
Federal grants and contributions	-	-	10,425	10,425
Charges for services	63,494	63,494	11,506	(51,988)
Interest and other	115,986	115,986	38,101	(77,885)
Total revenues	802,767	802,767	672,918	(129,849)
Expenditures				
Current				
General government	267,700	355,829	523,224	(167,395)
Public safety	69,698	117,803	65,659	52,144
Health	132,087	40,253	52,476	(12,223)
Public housing and welfare	-	70,406	57,540	12,866
Education	163,798	173,678	176,550	(2,872)
Transportation and communication	51,170	32,564	18,162	14,402
Culture and recreation	13,309	22,386	7,937	14,449
Total expenditures	697,762	812,919	901,548	(88,629)
Deficiency of revenues over expenditures	105,005	(10,152)	(228,630)	(218,478)
Other financing sources (uses)				
Loans issued	-	-	20,000	20,000
New resource initiative	98,000	98,000	-	(98,000)
Debt service:				
Principal	(154,270)	-	(100,819)	(100,819)
Transfers from other funds	52,956	52,956	93,272	40,316
Transfer to other funds	(69,327)	(2,069)	(16,443)	(14,374)
Transfer to component units	(32,364)	(95,425)	-	95,425
Total other financing sources, net	(105,005)	53,462	(3,990)	(57,452)
Excess (deficiency) of revenues and net other financing sources over expenditures	$ –	$ 43,310	$ (232,620)	$ (275,930)

See accompanying notes to the Schedule.

1. Budgetary Process and Control

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual balanced executive budget no later than May 30. The annual balanced executive budget is prepared on a GAAP basis, except for encumbrances, which are reported as expenditures for budget reporting purposes, by the Virgin Islands Office of Management and Budget (OMB) working in conjunction with other Government offices and agencies. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed re-appropriated item by item. The annual balanced executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all proposed expenditures and estimated revenue for the Government. The Legislature enacts the annual executive budget through passage of lump-sum appropriations for each department. The Legislature may add, change, or delete any items in the annual executive budget proposed by the Governor. Upon passage by the Legislature, the annual executive budget is submitted to the Governor, who may veto the budget partially or in its entirety and return it to the Legislature with his objections. A veto by the Governor can be overridden only by a two-thirds majority of all members of the Legislature. The Legislature is obligated by law to pass a final annual executive budget no later than September 30, the last day of the fiscal year. Supplemental budgetary appropriations bills that are signed into law may be created during the year without the identification of a specific revenue source to finance them. In August 1999, the Legislature enacted the Financial Accountability Act (Act No. 6289). The purpose of the Financial Accountability Act is to require by law that the budget of the Government be balanced each year, and the appropriations in each fiscal year not exceed a verifiable revenue source.

Once the budget has been enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor through the Director of OMB. During any fiscal year in which the resources available to the Government are not sufficient to cover the appropriations approved for such year, the Governor, through the Director of OMB, may take administrative measures to reduce expenditures. The Governor may also make recommendations to the Legislature for new taxes or any other necessary action to meet the estimated deficiency.

Budgetary control is exercised at the department level through an allotment process. Encumbrances and expenditures cannot exceed total allotment amounts. The Government's department heads may make transfers of appropriations within the department. Appropriation transfers between departments and supplemental appropriations require executive and legislative branch approval. Unencumbered and unexpended appropriations, not designated, lapse at fiscal year-end. Also, encumbrances are established at fiscal year-end to pay certain expenditures for travel and utility costs payable against current year appropriation authority, but to be expended in the subsequent year.

2. Budget/GAAP Reconciliation

The following schedule presents a comparison of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference of the excess (deficiency) of revenue and net other financing sources over expenditures for the year ended September 30, 2016, is presented below (expressed in thousands):

Excess of revenues and net other financing sources over expenditures	$ (275,930)
Entity difference – deficiency of revenues and net other financing over expenditures – activities with budgets not legally adopted	261,654
Excess of revenues and net other financing sources over expenditures – GAAP basis (net change in fund balance)	$ (14,276)

Controls over spending in special revenue funds and non-appropriated funds are maintained at the Department of Finance by use of budgets and available resources (revenues). The Government makes appropriations to authorize expenditures for various capital projects. Budgets for capital projects normally remain available until completion of the project unless modified or rescinded.