KPMG

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

General Purpose Financial Statements

September 30, 1999

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GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

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Independent Auditors' Report

The Honorable Governor of the Government of the
United States Virgin Islands:

We have audited the accompanying general purpose financial statements of the Government of the United States Virgin Islands (the "Government"), as of and for the year ended September 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the Government's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the following components' units:

- The Virgin Islands Public Finance Authority and the Employees' Retirement System of the Government of the Virgin Islands (known as "GERS"), blended component units, which represent the following indicated percentages of total assets and total revenues, respectively, of the special revenue funds (5 percent and 1 percent), the debt service funds (93 percent and 74 percent), the capital projects funds (88 percent and 37 percent), the trust and agency funds (89 percent and 100 percent of the pension trust fund) and 54 percent of total liabilities of the general long-term debt account group.

- The Virgin Islands Port Authority, the Virgin Islands Industrial Park Development Corporation and the Virgin Islands Public Television System, discretely presented component units, which represent 45 percent and 26 percent, respectively, of the total assets and total revenue of the public benefit corporations.

- The University of the Virgin Islands, discretely presented component units as the public university funds.

These financial statements referred to in the previous paragraph were audited by other auditors whose reports have been furnished to us, and our report on the general purpose financial statements, insofar as it relates to the amounts included for such funds and components units, is based solely on the reports of the other auditors.

Except as discussed in the following six paragraphs, 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 general purpose financial statements are free of material misstatement. The financial statements of the Virgin Islands Public Finance Authority and of the Employees' Retirement System of the Government of the Virgin Islands were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial

(Continued)

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

At management's request, we did not audit the Virgin Islands Lottery. Those financial activities are recorded in the enterprise fund column and represent 3 percent and 26 percent of total assets and total revenue, respectively, in such column.

The general purpose financial statements referred to above do not include the general fixed assets account group that should be included in order to conform with accounting principles generally accepted in the United States of America. The amounts that should be recorded in the general fixed assets account group are not known.

The general purpose financial statements referred to above do not include the financial information of the Virgin Islands Housing Finance Authority, which should be included as a discretely presented component unit in order to conform with accounting principles generally accepted in the United States of America. The effects of this departure from accounting principles generally accepted in the United States of America on the public benefit corporations' column have not been determined.

The report of the other auditors on the 1999 financial statements of GERS, a component unit blended in the trust and agency funds (pension trust fund), was qualified (i) because tests performed to a sample of personal loan balances, reported in GERS' financial statements at $60 million, disclosed errors with a frequency such that it was not possible to estimate their effect on these balances as of and for the year ended September 30, 1999, (ii) because the lack of accurate detailed subsidiary records also precluded independent verification of the reasonableness of interest income on personal loans totaling $5 million for the year ended September 30, 1999, and (iii) GERS has recorded a cash overdraft with the Department of Finance of the Government of approximately $13 million, and the other auditors were unable to obtain confirmation from the Department of Finance. No adjustments have been made in the trust and agency funds for these unreconciled differences.

The Government did not maintain certain accounting records related to governmental agencies included within the enterprise funds, particularly with respect to loans and advances, accounts receivable, and fixed assets, stated at $10 million, $1 million and $3 million, respectively, in the enterprise funds balance sheet column as of September 30, 1999. It was impracticable to extend our procedures sufficiently to determine the extent to which the general purpose financial statements as of and for the year ended September 30, 1999, may have been affected by these conditions.

We were unable to apply sufficient audit procedures to satisfy ourselves as to the propriety of the residual equity transfer recorded in the combined statement of revenue, expenses and changes in fund equity of the enterprise fund and the discretely presented component units during the year ended September 30, 1999, as a result of the transfer of the assets and operations of the Health Revolving Fund, an enterprise fund, to the Virgin Islands Government Hospital and Health Facilities Corporation, a public benefit corporation. Such amounts may affect the determination of the financial position and results of operations for the year then ended of the enterprise fund and the public benefit corporations as of September 30, 1999.

As more fully described in note 2, the general purpose financial statements referred to above do not include financial data of the Virgin Islands Housing Authority, which should be included as a discretely presented component unit in order to conform with accounting principles generally accepted in the United States of America. The effects of this departure from accounting principles generally accepted in the United States of America on the public benefit corporations' column have not been determined.

The hospitals' operations were being accounted for in the general fund and in the enterprise funds for the period from October 1, 1998 through April 30, 1999. As required by accounting principles generally accepted in the United States of America, hospitals operated by governmental units should be reported in the enterprise funds. The effects of this departure from accounting principles generally accepted in the United States of America on the general fund and the enterprise funds columns have not been determined.

The Government's general purpose financial statements do not include a provision for landfill closure and postclosure costs in the general long-term debt account group as required by accounting principles generally accepted in the United States of America. The effects of this departure from accounting principles generally accepted in the United States of America on the general long-term debt account group column have not been determined.

The Government's general purpose financial statements do not disclose the types of securities lent as of September 30, 1999 pursuant to the Securities Lending Agreement between GERS and State Street Bank. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

As more fully described in notes 13 and 15, the Government has initiated specific actions to improve its future cash flows through the issuance of long-term debt, engaging a consulting firm to assist them in their efforts to develop a series of detailed revenue enhancement and expenditure reduction initiatives and enacting certain laws directed toward improving the Government's financial situation. The Government's general fund had an unreserved fund deficit amounting to $345 million at September 30, 1999 and the unaudited projected unreserved general fund deficit at September 30, 2000 amounted to approximately $213 million. Further as discussed in note 15, the Government and the U.S. Department of Interior ("DOI") entered into a Memorandum of Understanding ("MOU"), whereby the Government agreed to use its best efforts to undertake certain deficit reduction initiatives. In recognition of these matters, the Government created an Economic Recovery Task Force. In April 2000, this task force submitted a five-year Operating and Strategic Financial Plan to the Governor with over 200 recommendations to help reduce the general fund deficit. The Government understands that it is in compliance with the Standards of Financial Performance and Accountability as outlined in the MOU.

Because of the matters discussed in the fourth, eighth and ninth paragraphs of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the balance sheet of the enterprise fund type as of September 30, 1999, and on the statements of revenue, expenses and changes in fund equity and cash flows for the enterprise fund type for the year then ended.

In our opinion, based on our audit and the reports of the other auditors, except for:

- the effects of the omission of the general fixed assets account group as discussed in the fifth paragraph of this report;

- the effects of the omission of financial data of the Virgin Islands Housing Finance Authority in the public benefit corporations column, as discussed in the sixth paragraph of this report;

- the effects on the financial statements of the trust and agency funds of such adjustments, if any, as might have been determined to be necessary, had the other auditors been able to satisfy themselves about (i) the personal loan balances as of September 30, 1999 and related interest income for the year then ended, and (ii) the amount of cash on deposit with the Department of Finance of the Government, as discussed in the seventh paragraph of this report;

- the effects in the determination of the financial position of the enterprise fund and the public benefit corporations, if any, as might have been determined to be necessary had we been able to apply sufficient audit procedures to satisfy ourselves as to the propriety of the residual equity transfer recorded in the combined statement of revenue, expenses and changes in fund equity of the enterprise fund and the discretely presented component units during the year ended September 30, 1999, as a result of the transfer of the assets and operations of the Health Revolving Fund, an enterprise fund, to the Virgin Islands Government Hospital and Health Facilities Corporation, a public benefit corporations as of September 30, 1999, as discussed in the ninth paragraph of this report;

- the effects of the omission of the financial data of the Virgin Islands Housing Authority in the public benefit corporations column, as discussed in the tenth paragraph of this report;

- the effects of accounting for a portion of the hospitals operations in the general fund as opposed to entirely in the enterprise funds for the period from October 1, 1998 through April 30, 1999, as discussed in the eleventh paragraph of this report; and

- the effects of not accounting for landfill closure and postclosure costs in the general long-term debt account group, as discussed in the twelfth paragraph of this report,

- the effects of not disclosing the types of securities lent in the general purpose financial statements as discussed in the thirteenth paragraph of this report

the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the general, special revenue, debt service, capital projects, and trust and agency fund types; the general long-term debt account group; and the public university funds and public benefit corporations of the Government of the United States Virgin Islands as of September 30, 1999, the results of operations of the general, special revenue, debt service, capital projects, expendable trust, and pension trust fund types, public university funds and public benefit corporations for the year then ended, and the cash flows of the public benefit corporations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* we have also issued a report dated May 31, 2001 on our consideration of the Government of the United States Virgin Islands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

KPMG LLP

May 31, 2001

Stamp No. 1673906 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

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GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Balance Sheet – All Fund Types, Account Group and Discretely Presented Component Units

September 30, 1999
(In thousands)

	Government fund types				Proprietary fund type	Fiduciary fund type
Assets and other debits	**General**	**Special revenue**	**Debt service**	**Capital projects**	**Enterprise**	**Trust and agency**
Cash and cash equivalents (note 4)	$ —	13,737	6,669	15,254	978	143,765
Investments (note 4)	11,242	15,378	82,616	102,885	—	1,301,806
Receivables, net (note 5):						
Taxes	45,543	—	—	—	—	—
Federal government	—	18,657	—	2,046	—	—
Accounts	—	—	—	—	1,987	13,299
Loans and advances	—	—	—	—	10,519	99,257
Interfund loan (note 6)	—	3,100	—	11,500	—	—
Accrued interest	21	193	—	109	143	7,948
Other	310	247	—	192	15	9,132
Due from (note 6):						
Other funds	6,274	9,902	—	1,500	617	62,894
Primary government	—	—	—	—	—	—
Component units	4,337	—	—	1,000	—	—
Inventories	—	—	—	—	467	—
Food stamp coupons	—	5,404	—	—	—	—
Restricted assets (notes 4, 7 and 9):						
Cash and cash equivalents	35,820	—	—	—	1,607	—
Investments	11,232	—	—	—	1,726	—
Other	—	—	—	—	—	—
Fixed assets, net (note 8)	—	—	—	—	26,293	10,775
Deferred charges	—	—	—	—	427	—
Other assets	—	—	—	—	1,480	2,195
Other debits:						
Amount available for debt service	—	—	—	—	—	—
Amount to be provided for retirement of general long-term obligations	—	—	—	—	—	—
Total assets and other debits	$ 114,779	66,618	89,285	134,486	46,259	1,651,071

See accompanying notes to general purpose financial statements.

(Continued)

General long-term debt account group	Totals primary government (memorandum only)	Component units: Public university funds	Component units: Public benefit corporations	Totals reporting entity (memorandum only)
—	180,403	19,301	15,111	214,815
—	1,513,927	145	13,304	1,527,376
—	45,543	—	—	45,543
—	20,703	722	1,898	23,323
—	15,286	2,195	61,916	79,397
—	109,776	445	264	110,485
—	14,600	—	—	14,600
—	8,414	—	—	8,414
—	9,896	—	4,655	14,551
—	81,187	—	—	81,187
—	—	2,755	3,168	5,923
—	5,337	—	—	5,337
—	467	533	14,377	15,377
—	5,404	—	—	5,404
—	37,427	4,919	51,952	94,298
—	12,958	20,573	7,949	41,480
—	—	5,927	145	6,072
—	37,068	79,428	394,208	510,704
—	427	502	3,957	4,886
—	3,675	686	24	4,385
48,414	48,414	—	—	48,414
988,702	988,702	—	—	988,702
1,037,116	3,139,614	138,131	572,928	3,850,673

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Balance Sheet – All Fund Types, Account Group and Discretely Presented Component Units, continued

September 30, 1999
(In thousands)

	Government fund types				Proprietary fund type	Fiduciary fund type
Liabilities	**General**	**Special revenue**	**Debt service**	**Capital projects**	**Enterprise**	**Trust and agency**
Accounts payable and accrued liabilities	$ 127,926	9,757	—	4,095	3,703	46,063
Tax refunds payable	136,858	—	—	—	—	—
Securities lending transaction	—	—	—	—	—	176,572
Customer deposits	—	—	—	—	—	—
Due to (note 6):						
Other funds	72,977	878	—	3,869	3,365	98
Primary government	—	—	—	—	—	—
Component units	5,923	—	—	—	—	—
Federal government (note 10)	—	—	—	—	—	—
Interest payable	—	—	812	—	—	—
Deferred revenue	9,607	9,911	40,059	—	1,805	—
Line of credit	—	—	—	—	—	—
Tax and revenue anticipation notes (note 9)	35,000	—	—	—	—	—
Notes payable (note 9)	—	—	—	—	14,850	—
Bonds payable (note 9)	—	—	—	—	—	—
Interfund loan payable (note 6)	14,600	—	—	—	—	—
Other liabilities	—	—	—	—	5,279	98,484
Other long-term liabilities (note 10)	—	—	—	—	—	—
Total liabilities	402,891	20,546	40,871	7,964	29,002	321,217
Fund Equity (Deficit) and Other Credits						
Contributed capital	—	—	—	—	6,000	—
Investment in general fixed assets	—	—	—	—	—	—
Retained earnings:						
Reserved	—	—	—	—	11,317	—
Unreserved	—	—	—	—	(60)	—
Fund balances (deficit):						
Reserved for:						
Encumbrances	52,783	—	—	—	—	—
Debt service	—	—	48,414	—	—	—
Employees' pension benefits	—	—	—	—	—	1,255,211
Unemployment benefits	—	—	—	—	—	51,107
Capital projects	—	—	—	126,522	—	—
Other specified purposes	4,337	—	—	—	—	—
Unreserved:						
Designated for specified purposes	—	—	—	—	—	—
Undesignated (note 13)	(345,232)	46,072	—	—	—	23,536
Total fund equity (deficit) and other credits	(288,112)	46,072	48,414	126,522	17,257	1,329,854
Commitments and contingencies (notes 9, 10, 11, and 15)	—	—	—	—	—	—
Total liabilities, fund equity (deficit) and other credits	$ 114,779	66,618	89,285	134,486	46,259	1,651,071

See accompanying notes to general purpose financial statements.

(Continued)

General long-term debt account group	Totals primary government (memorandum only)	Component units: Public university funds	Component units: Public benefit corporations	Totals reporting entity (memorandum only)
—	191,544	5,920	32,838	230,302
—	136,858	—	—	136,858
—	176,572	—	—	176,572
—	—	—	13,094	13,094
—	81,187	—	—	81,187
—	—	—	5,337	5,337
—	5,923	—	—	5,923
—	—	—	5,300	5,300
—	812	—	4,245	5,057
—	61,382	2,523	27	63,932
—	—	1,799	—	1,799
—	35,000	—	—	35,000
163,506	178,356	3,060	—	181,416
564,605	564,605	17,749	166,384	748,738
—	14,600	—	—	14,600
—	103,763	484	450	104,697
309,005	309,005	—	297	309,302
1,037,116	1,859,607	31,535	227,972	2,119,114
—	6,000	—	227,337	233,337
—	—	60,496	7,016	67,512
—	11,317	—	5,330	16,647
—	(60)	—	105,273	105,213
—	52,783	—	—	52,783
—	48,414	5,077	—	53,491
—	1,255,211	—	—	1,255,211
—	51,107	—	—	51,107
—	126,522	—	—	126,522
—	4,337	28,974	—	33,311
—	—	9,538	—	9,538
—	(275,624)	2,511	—	(273,113)
—	1,280,007	106,596	344,956	1,731,559
—	—	—	—	—
1,037,116	3,139,614	138,131	572,928	3,850,673

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Revenue, Expenditures and Changes in Fund Balances (Deficit) – All Governmental Fund Types and Expendable Trust Funds

Year ended September 30, 1999
(In thousands)

	Government fund types			
	General	Special revenue	Debt service	Capital projects
Revenue:				
Taxes	$ 388,738	2,779	41,370	1,518
Federal grants	—	149,233	—	9,085
Charges for services	5,897	2,128	—	233
Interest and other	5,261	31,568	1,627	6,095
Total revenue	399,896	185,708	42,997	16,931
Expenditures:				
Current:				
General government	136,812	51,720	—	—
Public safety	46,457	2,494	—	—
Health	56,189	11,587	—	—
Public housing and welfare	32,604	61,191	—	—
Education	126,412	27,940	—	—
Economic and agricultural development	14,850	249	—	—
Transportation and communication	22,650	4	—	—
Culture and recreation	10,284	9,460	—	—
Capital outlays	3,864	—	—	43,989
Debt service:				
Principal	—	—	12,060	—
Interest	—	—	29,913	—
Total expenditures	450,122	164,645	41,973	43,989
Excess (deficiency) of revenue over (under) expenditures (note 13)	(50,226)	21,063	1,024	(27,058)
Other financing sources (uses) (notes 6 and 9):				
Proceeds from long-term debt issues	26,000	—	3,163	—
Operating transfers from other funds	16,984	5,958	6,704	—
Operating transfers from component units	500	—	—	—
Operating transfers to other funds	(9,105)	(10,617)	(4,688)	(4,728)
Operating transfers to component units	(44,581)	—	—	—
Total other financing sources (uses), net	(10,202)	(4,659)	5,179	(4,728)
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	(60,428)	16,404	6,203	(31,786)
Fund balances (deficit) at beginning of year as restated (note 14)	(227,684)	29,668	42,211	158,308
Fund balances (deficit) at end of year	$ (288,112)	46,072	48,414	126,522

See accompanying notes to general purpose financial statements.

Fiduciary fund type Expendable trust	Totals (memorandum only)
8,005	442,410
—	158,318
—	8,258
11,156	55,707
19,161	664,693
7,993	196,525
—	48,951
—	67,776
—	93,795
—	154,352
—	15,099
—	22,654
—	19,744
—	47,853
—	12,060
—	29,913
7,993	708,722
11,168	(44,029)
—	29,163
721	30,367
—	500
—	(29,138)
—	(44,581)
721	(13,689)
11,889	(57,718)
62,754	65,257
74,643	7,539

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Revenue and Expenditures
Budget and Actual – General Fund
Non-GAAP Budgetary Basis

Year ended September 30, 1999
(In thousands)

	Budget	Actual	Variance
Revenue:			
Taxes	$ 407,100	386,358	(20,742)
Charges for services	6,800	5,693	(1,107)
Interest and other	11,095	5,042	(6,053)
Total revenue	424,995	397,093	(27,902)
Expenditures:			
Current:			
General government	186,044	128,327	57,717
Public safety	44,591	44,955	(364)
Health	71,263	48,818	22,445
Public housing and welfare	31,768	31,096	672
Education	124,526	124,557	(31)
Economic and agricultural development	8,170	14,670	(6,500)
Transportation and communication	30,281	20,717	9,564
Culture and recreation	14,384	9,965	4,419
Total expenditures	511,027	423,105	87,922
Deficiency of revenue over expenditures	(86,032)	(26,012)	60,020
Other financing sources (uses) (notes 6 and 9):			
Proceeds from long-term debt	31,100	26,000	(5,100)
Proceeds from tax and revenue anticipation notes	35,000	35,000	—
Proceeds from privatization of public benefit corporation	40,000	—	(40,000)
Operating transfers from other funds	10,660	16,984	6,324
Operating transfers from component units	—	500	500
Operating transfers to other funds	(4,750)	(9,105)	(4,355)
Operating transfers to component units	(28,423)	(44,581)	(16,158)
Total other financing sources (uses), net	83,587	24,798	(58,789)
Deficiency of revenue and other financing sources over expenditures and other financing uses	$ (2,445)	(1,214)	1,231

See accompanying notes to general purpose financial statements.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Statement of Changes in Net Plan Assets
Pension Trust Fund

Year ended September 30, 1999
(In thousands)

Additions:	
Contributions:	
Employer	$ 45,148
Plan member	26,301
Total contributions	71,449
Investment income:	
Net appreciation of fair value of investments (note 4)	76,687
Interest and dividends	50,382
Real estate – rental income (net of related expenses)	4,752
	131,821
Less investment expense	3,494
Net investment income	128,327
Adjustment to loan balances	4,845
Total additions	204,621
Deductions:	
Benefits paid	85,397
Refunds of contributions	3,294
Administrative and operational expenses	6,739
Total deductions	95,430
Net increase	109,191
Net assets held in trust for pension benefits	
Beginning of year	1,146,020
End of year	$ 1,255,211

See accompanying notes to general purpose financial statements.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Revenue, Expenses and Changes
in Fund Equity – All Proprietary Fund Type
and Discretely Presented Component Units

Year ended September 30, 1999
(In thousands)

	Proprietary fund type	Component units
	Enterprise	**Public benefit corporations**
Operating revenues – charges for services	$ 65,939	144,035
Operating expenses:		
Cost of services	55,996	132,953
Depreciation and amortization	863	25,980
Total operating expenses	56,859	158,933
Operating income (loss)	9,080	(14,898)
Nonoperating revenue (expenses):		
Interest income	456	3,006
Interest expense	(874)	(11,163)
Other, net	635	1,054
Total nonoperating revenue (expenses), net	217	(7,103)
Income (loss) before operating transfers	9,297	(22,001)
Operating transfers from primary government (note 6)	—	19,083
Operating transfer to primary government (note 6)	—	(500)
Operating transfers to other funds (note 6)	(1,229)	—
Operating transfers, net	(1,229)	18,583
Net income (loss)	8,068	(3,418)
Fund equity at beginning of year	40,969	300,727
Equity contributions	—	15,867
Residual equity transfers in (out) (note 6)	(31,780)	31,780
Fund equity at end of year	$ 17,257	344,956

See accompanying notes to general purpose financial statements.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Cash Flows –
All Proprietary Fund Type and Discretely Presented Component Units

Year ended September 30, 1999
(In thousands)

	Primary government proprietary fund type Enterprise	Public benefit corporations	Totals reporting entity (memorandum only)
Cash flows from operating activities:			
Operating income (loss)	$ 9,080	(14,898)	(5,818)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	863	25,980	26,843
Provision for uncollectible accounts	—	(636)	(636)
Loss on retirement of equipment	—	38	38
Changes in assets and liabilities:			
(Increase) decrease:			
Receivables, net	(6)	(5,691)	(5,697)
Due from primary government	—	(769)	(769)
Other assets	—	(1,420)	(1,420)
Accounts payable and accrued liabilities	—	9,839	9,839
Customer deposits	—	238	238
Due to other funds	685	—	685
Other liabilities	—	56	56
Other long-term liabilities	—	138	138
Increase (decrease) in:			
Due from other component units	100	—	100
Inventories	—	2,195	2,195
Other assets	1,083	—	1,083
Accounts payable and accrued liabilities	(8,148)	—	(8,148)
Due to primary government	—	(3,919)	(3,919)
Other liabilities	(12,512)	—	(12,512)
Deferred revenue	—	(2,588)	(2,588)
Total adjustments	(17,935)	23,461	5,526
Net cash provided by (used in) operating activities	(8,855)	8,563	(292)
Cash flows from noncapital financing activities:			
Principal paid on notes and loans	(655)	—	(655)
Interest paid on notes and loans	(874)	—	(874)
Operating transfers to other funds	(1,229)	—	(1,229)
Operating transfer from primary government	—	19,083	19,083
Operating transfer to primary government	—	(500)	(500)
Residual equity transfers in (out)	(1,484)	1,484	—
Net cash provided by (used in) noncapital financing activities	$ (4,242)	20,067	15,825

(Continued)

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Cash Flows –
All Proprietary Fund Type and Discretely Presented Component Units, continued

Year ended September 30, 1999
(In thousands)

		Primary government proprietary fund type Enterprise	Public benefit corporations	Totals reporting entity (memorandum only)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	$	(1,736)	(33,813)	(35,549)
Proceeds from issuance of bonds and notes		—	68,895	68,895
Principal paid on bonds and notes		—	(46,464)	(46,464)
Interest paid on bonds and notes		—	(9,436)	(9,436)
Payment of debt issue costs		—	(1,817)	(1,817)
Amount paid for refunding of notes and bonds		—	(28,200)	(28,200)
Capital contributions		—	15,867	15,867
Net cash used in capital and related financing activities		(1,736)	(34,968)	(36,704)
Cash flows from investing activities:				
Purchase of investments securities		(1,725)	(3,462)	(5,187)
Proceeds from sales and maturities of investments securities		—	8,168	8,168
Interest and dividends on investments		455	4,237	4,692
Net cash provided by (used in) investing activities		(1,270)	8,943	7,673
Net increase (decrease) in cash and cash equivalents		(16,103)	2,605	(13,498)
Cash and cash equivalents at beginning of year		18,688	64,458	83,146
Cash and cash equivalents at end of year	$	2,585	67,063	69,648

See accompanying notes to general purpose financial statements.

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GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Changes in Fund Balances
Public University Funds

Year ended September 30, 1999
(In thousands)

	Current funds		Loan
	Unrestricted	Restricted	funds
Revenue and other additions:			
Unrestricted current funds revenue	$ 12,363	—	—
Federal government appropriations – restricted	—	—	—
Federal grants and contracts – restricted	—	8,791	—
Private gifts, grants and contracts – restricted	—	1,558	—
Interest and dividend income	—	—	15
Expended for plant facilities	—	—	—
Retirement of indebtedness	—	—	—
Other additions	—	—	—
Total revenue and other additions	12,363	10,349	15
Expenditures and other deductions:			
Educational and general expenditures	24,181	10,609	—
Auxiliary enterprises expenditures	3,905	23	—
Indirect costs recovered	(275)	275	—
Expended for plant facilities	—	—	—
Retirement of indebtedness – principal	—	—	—
Interest on indebtedness	—	—	—
Other	—	—	3
Total expenditures and other deductions	27,811	10,907	3
Transfers among funds – additions (deductions):			
Operating transfers from primary government	19,796	503	—
Mandatory – restricted funds	(1,457)	1,457	—
Plant funds	(2,709)	—	—
Total transfers among funds	15,630	1,960	—
Net increase in fund balances	182	1,402	12
Fund balances at beginning of year, as restated (note 14)	2,328	3,360	1,021
Fund balances at end of year	$ 2,510	4,762	1,033

See accompanying notes to general purpose financial statements.

(Continued)

Endowment and similar funds	Plant funds			Totals (memorandum only)
	Unexpended	Retirement of indebtedness	Investment in plant	
—	—	—	—	12,363
—	—	28	—	28
—	3,505	—	—	12,296
—	—	—	—	1,558
4,460	218	82	—	4,775
—	—	—	434	434
—	913	—	1,482	2,395
—	—	—	—	—
4,460	4,636	110	1,916	33,849
—	—	—	—	34,790
—	—	—	—	3,928
—	—	—	—	—
—	1,247	—	—	1,247
—	—	2,395	—	2,395
—	—	1,548	—	1,548
1,801	—	39	—	1,843
1,801	1,247	3,982	—	45,751
—	547	3,165	—	24,011
—	—	—	—	—
—	(1,774)	801	3,682	—
—	(1,227)	3,966	3,682	24,011
2,659	2,162	94	5,598	12,109
21,553	6,344	4,984	54,897	94,487
24,212	8,506	5,078	60,495	106,596

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Current Funds Revenue, Expenditures
and Other Changes – Public University Funds

Year ended September 30, 1999
(In thousands)

	Current fund		Totals
	Unrestricted	**Restricted**	**(memorandum only)**
Revenue:			
Tuition and fees	$ 6,396	—	6,396
Federal grants and contracts	235	8,651	8,886
Primary government grants and contracts	86	637	723
Private gifts, grants and contracts	1,624	963	2,587
Endowment income	358	—	358
Sales and services of auxiliary enterprises	3,585	—	3,585
Other sources	79	152	231
Total current funds revenue	12,363	10,403	22,766
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	7,706	1,326	9,032
Research	626	2,073	2,699
Public service	381	3,134	3,515
Academic support	1,291	553	1,844
Student services	2,091	9	2,100
Operation and maintenance of plant	4,832	734	5,566
Institutional support	6,239	359	6,598
Student aid	740	2,719	3,459
Educational and general expenditures	23,906	10,907	34,813
Mandatory transfers for restricted current fund matching grant	1,457	(1,457)	—
Total educational, general and mandatory transfers	25,363	9,450	34,813
Auxiliary enterprises expenditures	3,905	—	3,905
Total expenditures and mandatory transfers	29,268	9,450	38,718
Other transfers and additions (deductions):			
Operating transfers from primary government	19,796	503	20,299
Transfer to plant funds	(2,709)	—	(2,709)
Excesses of transfers to revenue over restricted	—	(54)	(54)
Total other transfers and additions (deductions)	17,087	449	17,536
Net increase in fund balances	$ 182	1,402	1,584

See accompanying notes to general purpose financial statements.

1. Summary of Significant Accounting Policies

The Government of the U.S. Virgin Islands (the "Government") is an unincorporated organized territory of the United States of America ("United States"). 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, economic and agricultural development, transportation and communication, culture and recreation.

The accompanying general purpose financial statements of the Government have been prepared in conformity with accounting principles generally accepted ("GAAP") in the United States of America for governments as prescribed by the Governmental Accounting Standards Board ("GASB") which is the standard-setting body for establishing governmental accounting and financial reporting principles in the United States. The financial statements of the University of the Virgin Islands, which are included as a discretely presented component unit (public university funds), are based on the American Institute of Certified Public Accountants (AICPA) College Audit Guide model.

The general purpose 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 benefit corporations based on independent or subsidiary accounting systems maintained by them.

A. *Financial Reporting Entity*

The Government follows the provisions of GASB Statement No. 14, "The Financial Reporting Entity." This standard requires that the Government's financial reporting entity be defined according to specific criteria. According to the standard for financial reporting purposes, the Government of the U.S. Virgin Islands 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 other organizations for which the nature and significance of their relationship with the Government are such that exclusion would cause the general purpose financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (i) the ability of the PG to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the PG. 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.

(1) 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 and were blended into the appropriate funds and account groups:

(a) Virgin Islands Public Finance Authority

The Virgin Islands Public Finance Authority ("PFA") was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, the Government Capital Improvement Act of 1988, with the purposes 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 things, 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. PFA activities are blended within the PG because it is so intertwined with the Government that, in substance, they are the same.

(b) Employees Retirement System of the Government of the Virgin Islands

The Employees Retirement System of the Government of the Virgin Islands (known as "GERS") was created as an independent and separate agency of the Government with the purpose of administering the government employees' defined-benefit pension plan established as of October 1, 1959. The responsibility for the proper 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. GERS is a blended component unit reported as the pension trust fund because it provides services and benefits almost exclusively to the PG.

Complete financial statements of the blended component units can be obtained directly by contacting their respective administrative offices.

Administrative Offices

Virgin Islands Public Finance Authority
Kongens Gade No. 21-22
St. Thomas, VI 00802

Employees Retirement System of the Government of the Virgin Islands
GERS Complex
Veterans Drive
St. Thomas, VI 00802

(Continued)

(2) *Discretely Presented Component Units*

The following component units, consistent with GASB Statement No. 14, are discretely presented in the general purpose financial statements because of the nature of the services they provide and the Government's ability to impose its will. The public university funds financial information is presented in a separate column due to its reporting model being different from that followed by the other component units presented under the public benefit corporations column. The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

(a) Public University Funds

University of the Virgin Islands

The University of the Virgin Islands ("University") was organized as an instrumentality of the Government under Act No. 852 of 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: The Chairman of the board of education, the Commissioner of Education and the President of the University, all serving as members ex officio, 10 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 and other 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.

(b) Public Benefit Corporations

Virgin Islands Port Authority

The Virgin Islands Port Authority ("VIPA") was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 2375 of December 23, 1968, with the purposes of owning, operating and managing all types of 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

The Virgin Islands Water and Power Authority ("WAPA") was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 1248 of August 13, 1964, with the purpose of operating the water production and electric generation and distributing them 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 shall be heads of cabinet-level executive departments or agencies and six shall not be employees of the Government. WAPA is required by its bond resolutions to maintain separate accounting and issue separate audited financial statements for each system (the Electric and Water Systems).

Virgin Islands Industrial Park Development Corporation

The Virgin Islands Industrial Park Development Corporation ("VIIPDC") was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 3986 of June 9, 1977, with the purpose of acquiring, operating and improving industrial parks to provide suitable sites for the location of industries in the U.S. Virgin Islands. The powers of VIIPDC are exercised by a board of directors consisting of the members of the Virgin Islands Industrial Development Commission, which is composed by the Commissioner of Economic Development and Agriculture ("Chairman"), 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.

Virgin Islands Public Television System

The Virgin Islands Public Television System ("PTS") was created as a body corporate and politic constituting a public corporation and autonomous instrumentality by Act No. 2364 of November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of all the population of the U.S. Virgin Islands and to provide an effective supplement to the in-school education of children. The powers of PTS 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 PTS are ex officio members of the board who are not entitled to vote.

(Continued)

Magens Bay Authority

Magens Bay Authority ("MBA") was created as a corporate instrumentality by Act No. 2085 of 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 appointed by the board of directors.

Government Development Bank

The Government Development Bank ("GDB") was created by Act. No. 4100 of February 24, 1978, to aid the Insular Government in the performance of its duties to develop the economy of the Virgin Islands. The powers of GDB are exercised by the board of directors consisting of seven members appointed by the Governor.

Virgin Islands Government Hospital and Health Facilities Corporation

The Virgin Islands Government Hospital and Health Facilities Corporation ("VIGHHFC") created by Act No. 6012 of August 23, 1994 was inactive until April 30, 1999. Its purpose is to provide health care 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.

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

Administrative Offices

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

Virgin Islands Industrial Park Development Corporation
PO Box 6400
St. Thomas, V.I. 00801

Virgin Islands Port Authority
PO Box 301707
St. Thomas, V.I. 00803

Virgin Islands Public Television System
PO Box 7879
St. Thomas, V.I. 00801

Virgin Islands Water and Power Authority
PO Box 1450
St. Thomas, V.I. 00804

Magens Bay Authority
PO Box 10583
St. Thomas, V.I. 00802

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

Government Development Bank
1050 Norre Gade #5
St. Thomas, V.I. 00802

(Continued)

All financial statements of the discretely presented component units have a year-end of September 30, 1999, except for the Virgin Islands Water and Power Authority that has a year-end of June 30, 1999.

B. *Basis of Presentation*

The Government reports its financial position and results of operations in funds and account groups, each of which is considered an independent fiscal entity, and discrete presentations of component units. The operations of each fund are accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures/expenses.

Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. They are not considered funds because they do not report expendable available financial resources and related liabilities. For financial reporting purposes, the Government reporting entity is divided into the primary government and its component units. Individual funds of the primary government are classified into three categories: governmental funds, proprietary funds and fiduciary funds. Discretely presented component units are classified into public university funds and public benefit corporations.

The Government has established the following fund categories, fund types, account groups and discrete presentation of component units:

(1) *Governmental Fund Types*

Governmental funds are used to account for the general government functions of the Government. The following are the governmental fund types:

- *General Fund* – The general fund is the primary operating fund of the Government. It is used to account for all financial transactions, except those required to be accounted for in another fund.

- *Special Revenue Funds* – Special revenue funds are used to account for the proceeds of specific revenue sources (other than debt service or capital projects) such as federal grants, that are legally restricted to expenditures for specific purposes.

- *Debt Service Funds* – The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs other than long-term debt from the operations of proprietary fund types and discretely presented component units.

- *Capital Projects Funds* – Capital projects funds are used to account for the financial resources used for acquisition or construction of major capital facilities not being financed by proprietary fund types and discretely presented component units.

(Continued)

(2) Proprietary Fund Types

Government's proprietary fund types include the enterprise funds that are used to account for operations that are financed and operated in a manner similar to private business enterprises and where net income and capital maintenance are measured. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges (see note 12).

(3) Fiduciary Fund Types

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

- *Expendable Trust Funds* – are used to account for trusts for which principal and income may be expended for designated purposes.

- *Pension Trust Fund* – is used to account for the assets, liabilities and fund equity held in trust for the public employees retirement system. They account for assets of which the principal may not be spent for general government purposes.

- *Agency Funds* – are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

(4) Account Groups

Account groups establish control and accountability over the Government's general long-term obligations. The general long-term debt account group is used to account for long-term obligations of the Government including bonds and notes payable and other long-term liabilities excluding the liabilities of proprietary funds, pension trust fund and discretely presented component units.

No general fixed assets accounts group is presented in the accompanying combined balance sheet as no current balances are maintained.

(5) Discretely Presented Component Units

Discrete presentation of component units is used to include the financial information of entities that do not qualify to be blended with the funds and account groups of the primary government. The following are the Government's discrete presentation columns:

- *Public University Funds* – are used to account for the activities of the University. Accordingly, the public university funds are an aggregate of the following funds: current funds – restricted and unrestricted; loan funds; endowment and similar funds; plant funds; and agency funds.

(Continued)

- *Public Benefit Corporations* – are used to account for the financial activities of the Government's discretely presented component units excluding public university funds. The financial statements of these component units are presented in accordance with the appropriate accounting methods as discussed in note 1C.

C. *Basis of Accounting*

The basis of accounting determines when the Government recognizes revenue and expenditures or expenses and related assets and liabilities.

The modified accrual basis of accounting is followed by governmental fund types, expendable trust funds and agency funds. Under the modified accrual basis of accounting, revenue are recorded when they become measurable and available to pay liabilities of the current period. Tax revenue, net of estimated overpayments (refunds), are recorded by the Government as taxpayers earn income (income and unemployment), as taxes are levied (property), as sales are made (consumption and used taxes) and as cash is received (miscellaneous taxes).

Revenue from taxpayer-assessed taxes, such as income taxes, net of estimated refunds, are recognized in governmental funds in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period.

In applying the measurable and available criteria to intergovernmental revenue, moneys must be expended by the Government for the specific purpose or project before any amounts are reimbursed. Revenue are, therefore, recognized as expenditures are incurred.

Expenditures and related liabilities are recorded in the accounting period in which the liability is incurred, except for (i) principal payment and interest on long-term obligations, which are recorded when due and (ii) compensated absences, retroactive union arbitration salary increase, federal funds cost disallowances, and amounts subject to legal claims and judgments under litigation that are recorded in the general long-term debt account group.

The Government reports deferred revenue on its combined balance sheet. Deferred revenue arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arise when resources are received before the Government has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. Revenue is recognized in subsequent periods, when the revenue recognition criteria are met, or when the Government has a legal claim to the resources.

The accrual basis of accounting is used by proprietary fund types and the pension trust fund. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. Employee and employer contributions recorded in the pension trust fund are recognized as revenue in the period in which employee services are performed. The accrual basis is also used by the public university funds, except that depreciation of fixed assets is not recorded as permitted for governmental colleges and universities.

GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting," states that proprietary funds should apply all applicable GASB and Financial Accounting Standards Board ("FASB") pronouncements issued on or before November 30, 1989. In addition, proprietary funds may also elect to apply FASB pronouncements issued subsequent to November 30, 1989. The primary government and most blended component units have elected not to follow FASB pronouncements issued subsequent to November 30, 1989, for its proprietary fund types. The Virgin Islands Port Authority has elected to follow FASB pronouncements issued subsequent to November 30, 1989.

The public benefit corporations follow accounting principles generally accepted in the United States of America as issued by the GASB, and FASB as applicable to each component unit based on the nature of their operations.

D. Statutory (Budgetary) Accounting

The Government's budget is adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. Revenue are generally recognized when cash is received. However, revenue receivable from reimbursements are recognized when related expenditures are incurred.

Expenditures are generally recorded when they are encumbered or otherwise processed for payment. Encumbrances lapse at the end of the subsequent fiscal year.

Under the statutory basis of accounting, the Government uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The combined statement of revenue and expenditures – budget and actual – general fund – non GAAP budgetary basis presents the information for which there is an annual legally adopted budget, as required by accounting principles generally accepted in the United States of America. Budget revenue represent official estimates while expenditures represent amounts originally adopted and amended. Actual amounts are presented on the budgetary basis. See note 3B for a reconciliation of the combined statement of revenue and expenditures – budget and actual – general fund – non-GAAP budgetary basis with the combined statement of revenue, expenditures and changes in fund balances (deficit), for the general fund.

E. 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.

Cash equivalents of the discretely presented component units consisted 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 and collateralized by U.S. government obligations. Cash and cash equivalents of the discretely presented component units are maintained in separate bank accounts, from those of the primary government, in their own names.

F. Investments

Title 33, Chapter 117 of the Virgin Islands Code ("V.I. Code") authorizes the Government to invest in U.S. Government and agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. Investments are reported at fair value.

Investments in marketable equity securities in the pension trust fund are carried at quoted market values. Realized gains and losses on securities are determined by the average cost method. Investment in real estate is carried at fair value. Management has determined the fair value based upon an appraisal and a capitalization of net rental income. Member loans are valued at the outstanding loan principal balance less an allowance for estimated loan losses. Management believes that, based upon interest rate and risk factors, this valuation approximates fair value.

G. Receivables

Tax receivables represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts' taxes and real property taxes. All tax receivables are recognized when they become both measurable and available based on actual collections during the months subsequent to September 30.

Individual and corporate tax receivables are comprised of actual collections during the three months following the fiscal year-end related to tax returns due before year-end. Gross receipt's tax receivables are comprised of actual collections during the month after year-end. Real property tax receivables are comprised of actual collections during the next 60 days after year-end.

Federal government receivables represent amounts owed to the Government for reimbursement of expenditures incurred pursuant to federally funded programs.

Accounts receivables 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 nongovernmental customers of the discretely presented public benefit corporations are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the primary government and other component units that arise from service charges do not have significant allowances for uncollectible accounts.

(Continued)

H. *Inventories*

In governmental fund types, the costs of inventories are recorded as expenditures when purchased. The proprietary fund types, public university funds and the discretely presented public benefit corporations recognize an asset when the inventory is purchased and an expense when it is consumed. Inventories in proprietary fund types are primarily valued at the lower of cost or market using the first-in, first-out method.

I. *Restricted Assets*

Restricted assets in the primary government, public university funds and in the public benefit corporations are set aside primarily for the payment of bonds, notes, construction funds, and other specific purposes (see note 7).

J. *Fixed Assets*

For governmental fund types, general fixed asset acquisitions are recorded as expenditures in the acquiring fund. There are no subsidiary records to support the balance in the general fixed assets account group and, accordingly, it is not presented in the combined balance sheet.

Fixed assets of the proprietary fund types and pension trust fund are stated at cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Depreciation is provided using the straight-line method over estimated useful lives of the assets. Fixed assets of the public university funds are stated at cost or, if donated, at fair value at the date of donation. Interest cost is capitalized during the construction period. Depreciation on fixed assets is not recorded as permitted for governmental colleges and universities.

The fixed assets of the public benefit corporations were recorded in accordance with the applicable GASB and FASB statements. Interest cost is capitalized during the construction period. Depreciation has been recorded when required by these standards based on the types of assets, use, and estimated useful lives of the respective assets and on the nature of each of the component unit's operations. Depreciation on assets acquired with contributed funds is charged to operations and closed to the contributed capital account.

K. *Tax Refunds Payable*

During the calendar year, the Government collects individual income taxes through withholdings and payments from taxpayers. At September 30, 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.

(Continued)

L. *Long-Term Debt*

The liabilities reported in the general long-term debt account group include the Government's general obligation bonds and notes and other long-term liabilities including compensated absences, retroactive union arbitration salary increase, federal funds cost disallowances, and amounts subject to legal claims and judgments under litigation. Long-term obligations financed by proprietary fund types, pension trust fund, public university funds, and public benefit corporations' liabilities are reported in those funds or in the discretely presented component units' columns.

M. *Reservations of Fund Balance*

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditures. The Government has the following reservations of fund balances:

- *Encumbrances* – Represent future expenditures under purchase orders and other commitments. These committed amounts generally will become liabilities in future periods as the goods are received or the services are rendered.
- *Debt Service* – Represents net assets available to finance future debt service payments.
- *Employees' Pension Benefits* – Represent the public employees retirement system net assets available to finance future benefit obligations.
- *Unemployment Benefits* – Represent net assets available to fund future unemployment benefits payments.
- *Capital Projects* – Represent net assets available to finance future capital acquisition or construction projects.
- *Other Specified Purposes* – Represent the reservation of moneys set aside for long-term receivables that are not considered current financing resources, long-term assets, endowment, and amounts available to fund various fiduciary arrangements.

N. *Bond Premiums, Discounts and Issuance Cost*

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized in the period when the related long-term debt is issued. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance cost, whether or not withheld from the actual net proceeds received, is reported as debt service expenditures. For proprietary fund types, public university funds and public benefit corporations, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

(Continued)

O. *Postemployment Benefits*

In addition to the pension benefits in note 11, the Government provides postretirement health care benefits, in accordance with the V.I. Code to all employees who retire from the government on or after attaining age 55 with at least 30 years of service; except for policemen and firemen who can retire with at least 15 years of service. Currently 5,585 retirees meet those eligibility requirements. Health care benefits are provided through insurance companies whose premiums are paid by the retiree and the Government. The Government contributes two-thirds of the health care benefits premiums. During the year ended September 30, 1999, the cost of providing health care benefits premiums amounted to approximately $5.8 million.

P. *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 in excess of 480 hours (60 days) is sent to the Employees Retirement System of the Government of the Virgin Islands for service credit towards the employees' retirement. This vacation policy does not apply to professional educational personnel of the V.I. Department of Education, who are entitled to pay for school vacations. Upon retirement, an employee receives compensation for unpaid vacation leave at the employee's base rate pay. This liability is presented in the general long-term debt account group because it will not be funded with available expendable financial resources at September 30, 1999.

Employees accumulate sick leave at a rate of four hours for each full biweekly pay period up to a maximum of 180 days. Terminated employees may 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, the public university funds and public benefit corporations vary from entity to entity, depending upon negotiated bargaining agreements and other factors agreed upon between the management of these entities and its employees.

Q. *Interfund and Intra-entity Transactions*

The Government has the following types of transactions among funds:

- *Operating Transfers* – Legally required transfers that are reported when incurred as "Operating transfers from" by the recipient fund, and as "Operating transfers to" by the disbursing fund.

- *Interfund Payments (Quasi-external Transactions)* – Charges or collections for services rendered by one fund to another that are recorded as revenue of the recipient fund and as expenditures or expenses of the disbursing fund.

- *Intra-entity Transactions* – These are transactions between the primary government and its component units, and among the component units. Transfers between the primary government and its blended component units are reported as interfund transfers, except for transfers within the same fund type. Similarly, receivables and payables between the primary government and its blended component units are reported as amounts due to and due from other funds. Balances and transfers between the primary government and discretely presented component units (and among those component units) are reported separately.

- *Residual Equity Transfers* – These are nonrecurring or nonroutine transfers of equity between funds.

R. *Lottery Revenue and Prizes*

The revenue, expenses and prizes awarded by the Virgin Islands Lottery are reported within the enterprise funds and are recognized as drawings are held. Moneys collected prior to September 30 for tickets related to drawings to be conducted subsequent to September 30 are reported as deferred revenue. Unpaid prizes awarded as of September 30 are reported as a fund liability.

S. *Public University Funds*

Financial activities of the University are reported in the public university funds. Such funds are discretely presented in a separate column in the general purpose financial statements and represent the combination of the following funds of the University:

- *Current Funds* – Account for resources that may be used for any purpose in carrying out the primary objectives of the University. Resources restricted by donors or other outside agency for specific operating purposes are accounted for as a restricted current fund.

- *Loan Funds* – Account for resources limited by the terms of the donors for the purpose of making loans to students, faculty, or staff of the University.

- *Endowment and Similar Funds* – Account for endowment and quasi-endowment transactions. These funds are subject to restrictions requiring that the principal be invested and the income be used as specified by the donor or the board of trustees of the University.

- *Plant Funds* – Account for resources that have been or are to be invested in fixed assets and funds reserved to retire debt incurred to finance the acquisition of such fixed assets.

- *Agency Funds* – Account for resources held by the University as custodian or agent for others.

- *The Combined Statement of Current Funds Revenue, Expenditures and Other Changes* – Public University Funds is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income.

(Continued)

T. ***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 currently maintains a $100 million blanket insurance policy covering the buildings and structures mentioned above. For workmen's compensation, the Government has an enterprise fund that provides workmen's compensation to both, public and private employees.

U. ***Future Adoption of Accounting Requirements***

GASB has issued the following statements that the Government or its component units have not yet adopted:

Statement number		Adoption required in fiscal year
32	Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans	2000
33	Accounting and Financial Reporting for Nonexchange Transactions	2001
34	Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments	2002
35	Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB No. 34	2002
36	Recipient Reporting for Certain Shared Nonexchange Revenue – an amendment of GASB Statement No. 33	2001

The impact of these statements has not yet been determined.

V. ***Reclassifications***

The presentation of the separately issued financial statements of certain component units included within the special revenue funds, debt service funds, capital projects funds, enterprise funds, pension trust fund, agency funds, public university funds, and public benefit corporations column have been reclassified to conform to the account classifications used by the Government in the 1999 general purpose financial statements.

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W. *Use of Estimates*

Management of the Government has made certain estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these general purpose financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

X. *Total Columns (Memorandum Only)*

Total columns on the combined general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position, results of operations, or cash flows in conformity with accounting principles generally accepted in the United States of America. Such data is not comparable to a consolidation since interfund eliminations have not been made.

2. Component Units

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

- University of the Virgin Islands (Public University Funds)
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Industrial Park Development Corporation
- Virgin Islands Public Television System
- Magens Bay Authority
- Government Development Bank
- Virgin Islands Government Hospital and Health Facilities Corporation

The Virgin Islands Housing Authority ("VIHA"), created by Act No. 903 of June 18, 1962, as a public body corporate and politic constituting a public housing agency of the Government and that provides housing for low-income families was not included in the discrete public benefit corporations' column because they have not prepared GAAP financial statements. Audited financial statements of VIHA as of December 31, 1998, and for the year then ended were prepared on the basis of accounting prescribed or permitted by the U.S. Department of Housing and Urban Development ("HUD"). These practices differ from accounting principles generally accepted in the United States of America in that they do not

(Continued)

segregate the activities of VIHA by fund type and account group, certain terminology is inconsistent with professional accounting literature, the accounting for sales of home ownership dwelling units, certain HUD contributions and interest expense is recorded in surplus accounts rather than in the statement of operating receipts and expenditures, and there is no provision for depreciation on structures and equipment or for compensated absences earned for accumulated vacation. Accordingly, such financial statements are not intended to present the VIHA's financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

The general purpose financial statements do not include the financial information of VIHA as of September 30, 1999 since the data was not readily available. VIHA's financial statements prepared on non-GAAP basis as of December 31, 1998 and for the year then ended is as follows (expressed in thousands):

Accounts receivable	$	11,661
Investments		3,835
Land, structures and equipment		339,533
Other assets		8,272
Total assets	$	363,301
Notes payable	$	108,080
Bonds payable		26,410
Other liabilities		9,113
Total liabilities		143,603
Fund equity		219,698
Total liabilities and fund equity	$	363,301
Operating revenue	$	5,262
Net income for the year	$	2,327

Virgin Islands Housing Finance Authority

The Virgin Islands Housing Finance Authority ("VIHFA") was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 4636 of 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. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks and Recreation ("Chairman"), the Director of the Office of Management and Budget and three persons not employed by the Government appointed by the Governor with the advice and consent of the Legislature. The general purpose financial statements do not include the financial information of VIHFA as of September 30, 1999 since the data was not readily available.

(Continued)

Condensed financial information of all component units discretely presented under the public benefit corporations' column is as follows (expressed in thousands):

Balance sheet		Virgin Islands Port Authority	Virgin Islands Water and Power Authority Electric System	Virgin Islands Water and Power Authority Water System	Other entities	Total public benefit corporations
Assets						
Current assets	$	22,266	42,438	13,752	31,170	109,626
Due from primary government		3,117	—	—	51	3,168
Due from federal government		1,898	—	—	—	1,898
Restricted assets		15,290	35,954	8,802	—	60,046
Fixed assets, net		204,692	130,612	50,565	8,339	394,208
Other noncurrent assets		386	2,427	1,122	47	3,982
Total	$	247,649	211,431	74,241	39,607	572,928
Liabilities and Fund Equity						
Current liabilities	$	5,937	35,167	6,714	2,836	50,654
Due to primary government		1,875	—	3,462	—	5,337
Due to federal government		—	5,300	—	—	5,300
Bonds payable		21,212	105,042	40,130	—	166,384
Other long-term liabilities		—	—	—	297	297
Total liabilities		29,024	145,509	50,306	3,133	227,972
Fund equity		218,625	65,922	23,935	36,474	344,956
Total	$	247,649	211,431	74,241	39,607	572,928

Statement of operations	Virgin Islands Port Authority	Virgin Islands Water and Power Authority: Electric System	Virgin Islands Water and Power Authority: Water System	Other entities	Total public benefit corporations
Operating revenue	$ 36,839	79,000	25,030	3,166	144,035
Operating expenses	(34,941)	(72,469)	(21,468)	(30,055)	(158,933)
Operating income (loss)	1,898	6,531	3,562	(26,889)	(14,898)
Nonoperating revenue (expenses), net	(735)	(4,364)	(2,344)	340	(7,103)
Income (loss) before operating transfers	1,163	2,167	1,218	(26,549)	(22,001)
Operating transfers from (to) primary government	(500)	—	—	19,083	18,583
Net income (loss)	663	2,167	1,218	(7,466)	(3,418)
Fund equity at beginning of year	202,208	63,571	22,788	12,160	300,727
Equity contributions distributions), net	15,753	184	(70)	—	15,867
Residual equity transfer-in	—	—	—	31,780	31,780
Fund equity at end of year	$ 218,624	65,922	23,936	36,474	344,956

3. Stewardship, Compliance and Accountability

A. *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 executive budget no later than May 30. The annual executive budget is prepared essentially on a cash basis by the V.I. Office of Management and Budget ("OMB") working in conjunction with other Government departments 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 reappropriated item by item. The annual 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 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 gubernatorial veto can be overridden only by a two-third 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 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 "verifiable" revenue received. This Act will be effective commencing in fiscal year 2000-2001.

Once the budget has been enacted, fiscal control over expenditures made pursuant thereto is exercised by the Governor through the Director of OMB via the allotment process. 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 through the allotment process. 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 and allotment process. Encumbrances and expenditures cannot exceed total allotted amounts. Department heads may request 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 available until expended, lapse at fiscal year-end. Also, encumbrances are established at fiscal year-end to pay certain expenditures for salaries and wages, travel and utility costs payable against current year appropriation authority but to be expended in the subsequent year.

Controls over spending in special revenue funds not subject to appropriation are maintained at the V.I. Department of Finance by use of budgets and available resources (revenue). 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.

B. Budget/GAAP Reconciliation

The following schedule presents comparisons 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 (see note 1D), a reconciliation of timing and entity difference in the excess of revenue and other financing sources over expenditures and other financing uses for the year ended September 30, 1999, is presented below (expressed in thousands):

Deficiency of revenue and other financing sources over expenditures and other financing uses – Non-GAAP budgetary basis	$	(1,214)
Timing difference – change in encumbrances		(6,890)
Basis difference – proceeds from tax and revenue anticipation notes included in the budgetary basis, but excluded for GAAP basis		(35,000)
Entity difference – excess of expenditures and other financing uses over revenue and other financing sources – activities with budgets not legally adopted		(17,324)
Deficiency of revenue and other financing sources over expenditures and other financing uses – GAAP basis	$	(60,428)

C. Deficit Fund Equity

In addition to the general fund, as of September 30, 1999, fund deficits exceeding 10 percent of the total assets of its respective fund type were also reported in the following funds (expressed in thousands):

Special revenue funds:		
Paternity and Child Support	$	9,148
Job Training and Partnership Act	$	7,780
Virgin Islands Law Enforcement Fund	$	7,404
Enterprise funds:		
Public Transit Fund	$	8,577

4. Cash and Investments

By law, banks or trust companies designated as depository of public funds of the Government and its various agencies, authorities and instrumentalities, are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited.

At September 30, 1999, the primary government and the discretely presented component units carrying amounts of cash and cash equivalents were covered by federal deposit insurance, corporate surety bonds or by collateral held by the Government.

(Continued)

Legally authorized investments vary by fund, but generally include obligations of the United States or its States, Commonwealth of Puerto Rico, the Government of the U.S. Virgin Islands or of any agency thereof, common and preferred stocks of any U.S. corporation, common and preferred stocks of any foreign corporation listed in any internationally recognized security exchange, certain bonds or other indebtedness issued by foreign governments or foreign corporations, certificates of deposit, collateralized repurchase agreements, corporate bonds, and certain other investments. Specific bond indentures also provide investment requirements.

For the fiscal year ended September 30, 1999, the primary government and its discretely presented component units have classified their investments into three risk categories. Category 1 includes investments that were insured or registered or for which the securities were held by a government entity (that is, primary government or discretely presented component unit) or its agent in the entity's name and investments for which the entity has safekeeping responsibilities but no equity or ownership interest or control. Category 2 includes uninsured and unregistered investments for which the securities were held by the counterparty's trust department or agent in a government entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in a government entity's name. The investments of the primary government and its discretely presented component units by risk category at September 30, 1999, were as follows (expressed in thousands):

Primary Government

	Category			Reported	Fair
	1	2	3	amount	value
U.S. government and agency securities	$ 241,197	—	—	241,197	241,197
Common and preferred stocks – U.S.	449,027	—	—	449,027	449,027
Common and preferred stocks – foreign	71,733	—	—	71,733	71,733
Corporate obligations	119,025	—	—	119,025	119,025
Certificates of deposit	29,394	—	—	29,394	29,394
Collateralized mortgage obligations	117,922	—	—	117,922	117,922
Foreign bonds	54,563	—	—	54,563	54,563
Money market fund	92,197	—	—	92,197	92,197
	$ 1,175,058	—	—	1,175,058	1,175,058
Investments not subject to categorization:					
Mutual funds				88,018	88,018
Pooled investments				54,237	54,237
Real estate				33,000	33,000
Securities lending collateral				176,572	176,572
Total investments				$ 1,526,885	1,526,885

Public University Funds

	Category 1	Category 2	Category 3	Reported amount	Fair value
U.S. government and agency securities	$ 9,396	—	—	9,396	9,396
Common stock	6,869	—	—	6,869	6,869
Mortgage-backed securities	3,428	—	—	3,428	3,428
	$ 19,693	—	—	19,693	19,693
Investments not subject to categorization – mutual funds				1,025	1,025
Total investments				$ 20,718	20,718

Public Benefit Corporations

	Category 1	Category 2	Category 3	Reported amount	Fair value
U.S. government and agency securities	$ 7,949	—	—	7,949	7,949
Certificates of deposit	3,000	—	—	3,000	3,000
Money market accounts	10,304	—	—	10,304	10,304
Total investments	$ 21,253	—	—	21,253	21,253

GERS investments in marketable securities are administered by several professional investment managers and are held-in-trust by a commercial bank in the name of GERS. The investments in marketable securities generated interest and dividend income of $39.2 million. During the year ended September 30, 1999, GERS's investments (including gains and losses on investments bought and sold, as well as held during the year) (depreciated) appreciated in value as follows (expressed in thousands):

U.S. government and government-guaranteed obligations	$ (17,684)
Corporate obligations	(12,670)
Foreign bonds	(4,507)
Common stock – U.S.	99,112
Common stock – foreign	18,589
Preferred stock – foreign	305
Collateralized debt obligations	(6,011)
Mutual funds	(545)
Foreign currency translation	98
Net appreciation of fair value of investments	$ 76,687

(Continued)

The Securities Lending Agreement (the "agreement") between GERS and State Street Bank (the "Trustee") dated April 1, 1999 authorizes GERS to participate in a securities lending program administered by the Trustee. GERS changed custodians from the Chase Manhattan Bank, N.A. to State Street Bank in April 1, 1999. The Trustee lends securities of the type on loan at year-end for collateral in the form of cash or other securities at a minimum of 102 percent of the market value of the security for domestic borrowers, and 105 percent for foreign borrowers. The securities are marked-to-market, and settlements are made with the borrowers on a daily basis by the Trustee. Pursuant to the agreement GERS has the ability to pledge or sell collateral securities without a borrowers default. The agreement does not have any restriction as to the amount of loans that can be made from the securities to be lent. Securities lent at year-end are presented as unclassified in the preceding schedule of custodial credit risk. At year-end, the system has no credit risk exposure to borrowers because the amounts GERS owes the borrowers exceed the amounts the borrowers owe GERS. The agreement requires GERS to indemnify and hold harmless the Trustee from any and all damages, losses, liabilities, costs, and expenses which the Trustee may incur or suffer arising in any way out of the use by GERS of loaned securities or any failure to deliver loaned securities. At September 30, 1999, approximately $172.7 million of securities were on loan.

5. Receivables

General fund tax receivables at September 30, 1999, consist of the following (expressed in thousands):

Income	$	37,615
Real property		5,032
Gross receipts		2,896
	$	45,543

The Naval Appropriations Act, 1922, and Section 28(a) of the Revised Organic 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 levied each year to every corporation, partnership, individual, 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 U.S. income tax obligations by filing his return with, and paying income taxes to, the Government, even if his income is from non-U.S. Virgin Islands sources. 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 was levied, provided the tax is collected within 90 days subsequent to fiscal year end. The revenue from income tax withholding and estimated payments are recognized in the general fund as collected, net of estimated tax refunds.

Corporate income taxes are due by the 15th day of the third month following the close of the fiscal year, and become delinquent if not paid on or before three months after the due date.

Partnerships, personal, estate, and trust income taxes are due by the April 15 of the following year for which the income tax was levied. If an extension is filed, the last payment is due by August 15.

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Property taxes are levied each calendar year on all taxable real property located in the U.S. Virgin Islands. The revenue is recognized in the general fund in the fiscal period for which the property tax was levied, provided the tax is collected within 60 days subsequent to fiscal year-end, unless the facts justify a period greater than 60 days.

The Office of the Tax Assessor is responsible for the assessment of all taxable real property. Noncommercial real property subject to taxation is reassessed biennially and commercial real property subject to taxation is reassessed annually. The Tax Assessor prepares an annual assessment roll and schedule of collections for each parcel of real property that is used by the Department of Finance, 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 September 30 and become delinquent if not paid by October 30. The taxes assessed become an enforceable first lien against the real property as of the levy date.

For businesses with gross receipts of less than $150,000 per annum, gross receipt taxes are levied on a monthly basis, based on a 4 percent of gross receipts in excess of $5,000. Businesses with annual gross receipts of more than $150,000, lose the $5,000 monthly exemption. The gross receipts' tax is due within 30 calendar days following the last day of the calendar month collected.

Loans and advances receivable at September 30, 1999, consist of the following (expressed in thousands):

		Primary government		Discretely presented components units	
		Enterprise funds	**Pension trust fund**	**Public University Funds**	**Public benefit corporations**
Mortgage loans	$	9,636	33,720	—	—
Personal loans		—	67,019	—	—
Student loans		—	—	644	—
Other loans and advances		963	1,518	—	264
		10,599	102,257	644	264
Less allowance for uncollectible accounts		(80)	(3,000)	(199)	—
Loans and advances, net	$	10,519	99,257	445	264

6. Interfund Transactions

A. *Operating Transfers*

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund which utilizes them. The more significant transfers from the general fund to other funds include $4.6 million and $3.6 million transferred to the debt service fund and Emergency Molasses Fund ("special revenue fund") respectively. Operating transfers from other funds to the general fund consisted primarily of $3.8 million transferred from the Hurricane Hugo Insurance Claims Fund ("special revenue fund"), $3.5 million transferred from the debt service fund, $2.7 million transferred from the Property Tax Increment Fund ("special revenue fund"), $2.3 million transferred from the Bond Proceeds Fund ("capital project fund"), $2.2 million transferred from the Caribbean Basin Initiative Fund ("capital project fund"), and $1.5 million transferred from the Land Bank Fund ("special revenue fund").

Operating transfers from other funds to the special revenue fund not mentioned above consisted primarily of $1.2 million and $1 million transferred from the debt service fund and the West Indian Company ("enterprise fund"), respectively, to the Virgin Islands Public Finance Authority operating account ("special revenue fund"). Operating transfers from other funds to the debt service fund not mentioned above consisted primarily of $1.9 million transferred from the Property Tax Increment Fund ("special revenue fund").

Each year the general fund appropriates funds to certain component units to subsidize operations. The more significant transfers made to component units include $25 million transferred to the University of the Virgin Islands ("public university fund") and $17 million, $1.4 million and $695 thousand transferred to the Virgin Islands Government Hospital and Health Facilities Corporation, Virgin Islands Public Television System and the Government Development Bank, respectively ("public benefit corporations").

In December 1998, the Virgin Islands Port Authority ("VIPA") contributed $500 thousand to the Government as a contribution in lieu of taxes. Subsequent to this payment, VIPA agreed with the Government to waive all marine fees for cruise ships calling at the St. Croix marine facilities for a period of three years commencing June 1999. In exchange, the Government exempted the VIPA of any imposition of fees or taxes during such period. VIPA has the right to terminate the agreement under certain circumstances, including among others, the inability to meet its financial obligations. The effect in fiscal year 1999 of waiving these fees during the period from June to September represented savings for VIPA amounting to $236 thousand. This amounts represents the only operating transfer made by component units.

Operating transfers to component units differ with the related operating transfers from primary government because the latter omits the $498 thousand transferred to Virgin Islands Housing Authority ("VIHA"). The transfer is omitted on the public benefit corporations column of the combined statement of revenue, expenses and changes in fund equity due to the fact that no financial statements from VIHA was available for the year ended September 30, 1999, as mentioned in note 2.

B. Due From/To Other Funds

The following table summarizes the due from/to at September 30, 1999 (expressed in thousands):

	Primary government	Public university funds	Public benefit corporations	Total
Due from:				
Other funds	$ 81,187	—	—	81,187
Primary government	—	2,755	3,168	5,923
Public benefit corporations	5,337	—	—	5,337
Total	$ 86,524	2,755	3,168	92,447
Due to:				
Other funds	$ 81,187	—	—	81,187
Primary government	—	—	5,337	5,337
Public university funds	2,755	—	—	2,755
Public benefit corporations	3,168	—	—	3,168
Total	$ 87,110	—	5,337	92,447

The more significant balances of due from/to other funds include the amounts of $4.7 million, $3.7 million, $1.5 million, $1.4 million, and $1.2 million from the General Fund to the Property Tax Increment Fund ("special revenue fund"), Emergency Molasses Fund ("special revenue fund"), St. John Capital Improvement Fund ("capital project fund"), Judges Pension Fund ("expendable trust fund"), and Elected Governor Retirement Fund ("expendable trust fund"), respectively. Due from/to balances other than from the general fund include $1.4 million from Caribbean Basin Initiative Fund ("capital project fund") to the Emergency Molasses Fund ("special revenue fund") and $1.2 million from the Bond Proceeds Fund ("capital project fund") to the general fund.

Other balances composing the due from/to other funds not mentioned above, include $8 million from the general fund to the Employee Retirement System of the Government of the Virgin Islands ("GERS"), blended component unit, pursuant to the Early Retirement Act of 1994 and $3.2 million from the Virgin Islands Lottery, blended component unit, consisting primarily of 8 percent of the total lottery revenue that are required to be transferred to the general fund. The remaining balances of due from/to other funds arise primarily from advances made by the agency funds to cover overdrafts in the Government's pooled cash accounts in the general fund.

The due to primary government balance is primarily composed of $3.4 million from WAPA Water System. This amount derives from contributions received by WAPA Water System from the Government totaling $17.5 million that were received prior to 1982 to assist in the financing of three large desalination plants acquired by WAPA Water System. These funds were recorded as contributions in aid of construction. In July 1982, the WAPA Water System's Governing Board resolved, pursuant to a legislative act, to repay the Government by providing credits of

$18 million over 16 years as a reduction in the price of water sold to the Government for distribution. Credits of $3.5 million were issued until such practice was stopped in June 1983. Upon the transfer of the water distribution system from the Government in January 1988, WAPA Water System reclassified the remaining amount due, net of discount, as a liability and is reported as due to primary government in the accompanying combined balance sheet. As of September 30, 1998, the balance due to the Government was approximately $9.2 million, however, on September 28, 1999, there was an agreement between both parties whereby the WAPA Water System offset approximately $5.7 million in balances due from the Government against the due to the Government. As of September 30, 1999, the balance due to the Government was approximately $3.5 million.

In addition, another balance composing the due to primary government balance not mentioned above, is the amount of $1 million from VIPA, a discretely presented component unit, deriving from a grant received in 1991 for the construction of certain projects. At the time, VIPA used such moneys to fund shortfalls in their sinking funds. VIPA intends to repay the amount through construction of the intended project, which as of September 30, 1999 is still pending.

The due from primary government balance is primarily composed of $3.1 million due to VIPA, a discretely presented component unit, and $2.8 million due to the University of the Virgin Islands, public university fund.

The interfund loan balance is primarily composed of $6.5 million and $5 million due from the general fund to the Road Fund and the St. John Capital Improvement Fund ("capital project funds"). The amounts relate to advances made to the general fund in 1995 with the purpose of meeting recurring Government payroll requirements, pursuant to Act No. 6068.

C. *Residual Equity Transfers (Unaudited)*

The following table summarizes the residual equity transfers in/out for the year ended September 30, 1999 (expressed in thousands):

	Enterprise fund	Public benefit corporations	Total
Residual equity transfers in	$ —	31,780	31,780
Residual equity transfers out	(31,780)	—	(31,780)
	$ (31,780)	31,780	—

In accordance with Act No. 6279, the assets and operations of the Health Revolving Fund, an enterprise fund, were transferred to the Virgin Islands Government Hospital and Health Facilities Corporation, a public benefit corporation on May 1, 1999.

7. Restricted Assets

A. *Primary Government*

Restricted assets of the primary government include cash and cash equivalents for debt service and sinking fund requirements.

B. *Public University Funds*

Restricted assets of public university funds include cash and cash equivalents, investments and receivables in the following funds (expressed in thousands):

Restricted current funds	$	4,585
Endowment and similar funds		24,212
Plant funds – retirement of indebtedness		2,622
Total	$	31,419

C. *Public Benefit Corporations*

Restricted assets of the public benefit corporations include cash, cash equivalents and investments for the following purposes (expressed in thousands):

Cash and Cash Equivalents		
Debt service and sinking fund requirements	$	12,850
Construction funds		35,479
Renewal and replacement		768
Other		3,000
Total cash and cash equivalents		52,097
Investments		
Debt service and sinking fund requirements		7,949
Total investments		7,949
Total restricted assets of public benefit corporations	$	60,046

(Continued)

8. Fixed Assets

A. *Primary Government*

The accounting records maintained by the V.I. Department of Finance has no subsidiary records of general fixed assets, thus the required disclosure cannot be provided.

Fixed assets for the enterprise funds as of September 30, 1999, are as follows (expressed in thousands):

Land	$	5,521
Buildings		21,840
Equipment		2,195
Construction in progress		1,414
Total		30,970
Less accumulated depreciation		4,677
Fixed assets, net	$	26,293

The fixed assets of the pension trust fund as of September 30, 1999, are summarized as follows (expressed in thousands):

Land	$	1,274
Buildings and improvements		10,274
Total		11,548
Less accumulated depreciation		773
Fixed assets, net	$	10,775

B. *Discretely Presented Component Units*

Fixed assets for the discretely presented component units as of September 30, 1999, are as follows (expressed in thousands):

		Public university funds	Public benefit corporations
Land	$	2,980	11,926
Buildings and improvements		45,302	347,886
Airport and marine terminal facilities		—	256,783
Equipment		19,483	17,687
Construction in progress		7,900	47,102
Other assets		3,763	9,899
Total		79,428	691,283
Less accumulated depreciation and amortization		—	297,075
Fixed assets, net	$	79,428	394,208

No depreciation is recorded for the public university funds as permitted for governmental colleges and universities.

The discretely presented component units' facilities suffered extensive damage when they were struck by Hurricanes Georges, Marilyn and Hugo in September 1998, 1995 and 1989, respectively. During fiscal years 1999, 1996, 1991, and 1990, WAPA reconstructed the majority of its facilities financed from insurance proceeds and FEMA funds. In management's opinion, the outcome of audits of reconstruction expenditures financed from FEMA funds will not have a material adverse effect on the general purpose financial statements.

9. Bonds and Notes Payable

A. *Primary Government*

The following schedule shows the changes in bonds and notes payable in the general fund and general long-term debt account group for the year ended September 30, 1999 (expressed in thousands):

		Balance at October 1, 1998	Debt issued	Debt paid	Balance at September 30, 1999
Bonds payable	$	541,820	31,550	8,765	564,605
Notes payable		166,719	81	3,295	163,506
Tax and revenue anticipation notes		—	35,000	—	35,000

(1) Debt Margin

In accordance with Public Law 94-392, the Government is authorized to issue bonds or other obligations in anticipation of matching fund revenue to be received from the federal government. These bond issues are exempt from the limitations imposed by the Revised Organic Act. Revenue bonds may also be issued on behalf of the U.S. Virgin Islands for public improvements or undertakings authorized by an act of the Legislature, without the limitation as to principal amount. The Revised Organic Act (Section 8) states the projects that allow for the incurrence of public indebtedness to an extent such debt does not exceed 10 percent of the aggregate assessed valuation of taxable real property. The borrowings must be authorized by the Legislature of the U.S. Virgin Islands. The PFA does not have a legal debt limit.

Upon enactment of Act No. 6289 on July 21, 1999, the amount of debt of the Government existing on October 1, 2000 becomes the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds.

(Continued)

(2) *Bonds Payable*

Bonds payable outstanding at September 30, 1999, is comprised of the following (expressed in thousands):

1998 Series A, B, C, D, and E revenue and refunding bonds, due 2000 to 2022, interest at 5.50% to 7.11%	$	533,055
1999 Project Revenue Bonds, due 2005 interest at 6.25%		13,550
1999 Series A General Obligation Bonds – due 2007 and 2010 interest at 6.50%		18,000
Bonds payable as of September 30, 1999	$	564,605

On May 1, 1998, PFA issued the revenue and refunding bonds series 1998 A, B, C, D, and E amounting to $541.8 million, secured by general obligation notes issued by the Government. These bonds were issued for the purpose of, among others, advance refund previously issued bonds 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 million and an economic gain of approximately $19 million.

The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993, and Series 1994 Bonds. At September 30, 1999, $253 million of the above-mentioned defeased bonds were outstanding.

The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest due and payable on the Bond Anticipation Note, issued in February 1998. The remaining balance of the 1998 Series D Bonds amounting to approximately $12 million was primarily provided to the Government for additional working capital. The net proceeds of the 1998 Series E Bonds amounting to $104 million were primarily designated to fund the construction of certain capital projects amounting to $94 million. The remaining $10 million was deposited in a debt service reserve account.

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, 1999, $186 million of defeased bonds were outstanding. All assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government's financial statements.

The Government has pledged the matching fund revenue, as described below, to the timely payment of principal and interest on the 1998 Series A, B, C, D, and E Bonds. Thus, amounts to be received by the Government from federal excise tax, mostly in rum, are deposited directly in a trust account until the 1998 Bonds are paid in accordance with the Indenture of Trust. The Secretary of the U.S. Department of Treasury makes certain transfers to the Government of substantially all excise taxes imposed and collected under the Internal Revenue laws of the United States in any fiscal year on certain products produced in the Virgin Islands (primarily rum), and exported to the United States from the Virgin Islands. The amount required to be remitted to the government by the Secretary of the Treasury is an amount no greater than the total amount of local 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.

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

Interest on the revenue and refunding bonds series 1998 A, B, C, D, and E is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 1998 Series bonds. The principal and interest payments on October 1 are funded by the matching fund revenue, and the required investment to meet the April 1 interest payments is determined and deposited into the debt service reserve accounts, which is also funded by the matching fund revenue.

On April 13, 1999, a loan agreement was made between and among the Government, the Virgin Island Public Finance Authority, International Business Machine Corporation ("IBM"), Banco Popular de Puerto Rico, and U.S. Trust Company of New York ("Y2K Loan"). The purpose of this loan was to finance the costs of compliance by the Government with Year 2000 computer systems issues.

The loan was evidenced by the Government's issuance of General Obligation Bonds and by the issuance of PFA Project Revenue Bonds, on behalf of the Government.

On April 13, 1999 the Government issued General Obligation Bonds Series 1999A amounting to $18 million. The purpose was to fund the readiness of the Government's computer systems that qualified for general obligation financing, including assessment of the Y2K compliance issues and procurement of the hardware and software equipment necessary to assure that the Government's computer systems were prepared for Y2K compliance.

The Bonds are secured by the full faith and credit and taxing power of the Government, including a pledge on annual real property tax revenue from its taxation of the Hovensa Oil Refinery which revenue are deposited in the Hovensa Property Tax Fund and a negative pledge of all franchise taxes on Foreign Sales Corporation collected by the Government

("Franchise Tax Revenue"). Pursuant to the Hovensa Oil Contract, the Corporation agreed to pay $12 million annually of real property taxes on the refinery properties. Foreign sales corporations qualified to do business in the Virgin Island must pay a franchise tax of $1.50 for each thousand dollars of capital stock issued (Franchise Tax).

Principal and interest is payable semiannually on January 1 and July 1. No payment of principal nor interest were made in fiscal year 1999.

On April 13, 1999, PFA issued Project Revenue Bonds (the "1999 Project Revenue Bonds"), amounting to $13.5 million on behalf of the Government, to finance a portion of the Government's Year 2000 ("Y2K") compliance efforts, including the costs related to transportation, installation and related hardware, software and consulting services and related expenses. The 1999 Project Revenue Bonds are secured by lease payments made by the Government to PFA pursuant to a municipal lease purchase agreement, dated April 13, 1999. Such lease payments shall be funded by appropriation from the real property taxes deposited in the Hovensa Property Tax Fund and all franchise taxes on a subordinated basis and subject to any superior rights of the Series 1999 A General Obligation Bonds. The 1999 Project Revenue Bonds mature on January 1, 2005 with interest payable semiannually on January 1 and July 1.

No payment of principal nor interest was made in fiscal year 1999 for the Project Revenue Bonds.

As of September 30, 1999, debt service requirements for bonds outstanding are as follows (expressed in thousands):

Year	Principal	Interest	Total
2000	$ 12,550	31,983	44,533
2001	15,415	30,693	46,108
2002	16,355	29,759	46,114
2003	17,325	28,782	46,107
2004	18,330	27,786	46,116
Thereafter	484,630	309,217	793,847
	$ 564,605	458,220	1,022,825

(3) *Notes Payable*

The Government obtained a loan from the U.S. Department of the Interior ("DOI") amounting to $1.9 million for certain capital projects during fiscal year 1988. Principal and interest are payable semiannually with final maturity on September 30, 2000. The loan is not guaranteed by the Government and interest accrues at 4 percent per annum. In the event of default, the DOI has been authorized to assign the Government's right to receive certain Caribbean Basin Initiative revenue to pay the outstanding balance on the loan that amounted to $195 thousand at September 30, 1999.

The Government and FEMA entered into two Community Disaster Loan Agreements ("CDL") on September 19, 1990 and June 14, 1996. The purpose of the 1990 and 1996 CDL loans was to enable the Government to continue to provide vital municipal services such as public health and safety, police and fire protection and the operation of public schools, among others, after the Government had suffered a substantial loss of tax and other revenue as a result of the Hurricane Hugo and Hurricane Marilyn disasters which occurred in 1989 and 1995, respectively. The loan proceeds were not intended to provide funds to finance capital projects, nor the repair or restoration of public property damaged by Hurricane Hugo or Hurricane Marilyn. The CDL loans, by its terms, are secured by a pledge of the full faith, credit and taxing power of the Government.

Based on a review of the Government's CDL applications, FEMA determined that the Government was eligible for a loan of $89.9 million as a result of Hurricane Hugo. However, drawdown of funds was limited to $50.1 million. The loan accrues interest at the annual rate of 8.25 percent. In November 1997, the Government received a notification from FEMA stating that $21 million of unpaid principal were condoned and that the remaining principal unpaid balance of $29 million will be paid on 34 quarterly payments. Payments of interest commenced in January 1998, while the payment of principal balance commences in April 2003. Under FEMA rules and regulations, the administrative process for cancellation of the Government's 1990 CDL loan has been exhausted. The Government nevertheless is pursuing remedies to reduce the budgetary burden through debt cancellation under provisions of the Federal Credit Reform Act, and through legislative debt relief from the U.S. Congress. At September 30, 1999, the outstanding principal balance of the 1990 CDL loan amounted to $29 million.

The 1996 CDL loan accrues interest at the annual rate of 6.35 percent and will be paid in 40 quarterly payments starting on June 26, 2001. The Government plans to pursue its rights under FEMA rules and regulations for administrative cancellation of all or part of the Hurricane Marilyn CDL. The Government also intends to pursue relief through federal legislation, if necessary, following administrative proceedings before FEMA. The 1996 CDL loan outstanding principal balance as of September 30, 1999, amounted to $127.2 million.

In addition to the 1990 and 1996 CDL loans, FEMA provided the Government a state share loan on May 3, 1996. The loan provides the Government with funds to be used for the matching portion of FEMA programs. The loan accrues interest at an annual rate of 6.35 percent with final maturity on August 2002. At September 30, 1999, the outstanding principal balance of this loan amounted to approximately $6.4 million.

In May 1999, the Government was granted a deferral on four quarterly interest payments on the 1990 CDL loan and four quarterly payments on the state share loan. In April 2000, FEMA extended the deferral of principal and interest on both loans for two additional quarters.

In the event of a default by the Government, FEMA is entitled to recover the delinquent outstanding principal, plus any accrued and unpaid interest, under federal debt collection procedures, including administrative offset against other federal funds due to the Government, which may include matching fund revenue.

On July 12, 1999, the Government issued two tax and revenue anticipation notes ("TRAN") to finance the payment of certain working capital costs of the Government secured by the gross receipt taxes. An anticipation note for the amount of $22.5 million was issued with a maturity date of July 10, 2000 at an annual interest rate of 5.80 percent. This anticipation note was issued together with a $12.5 million anticipation note with a maturity date of July 10, 2000 at an annual interest rate of 5.80 percent. Gross receipt taxes are imposed on every individual, firm or corporation doing business in the Virgin Islands and represents a tax of 4 percent on the gross receipts of such businesses.

Interest for the TRAN's is payable quarterly commencing October 10, 1999. No payments of principal nor interest were made in fiscal year 1999.

As of September 30, 1999, debt service requirements for notes payable and tax and revenue anticipation notes outstanding are as follows (expressed in thousands):

Year	Principal	Interest	Total
2000	$ 35,735	1,517	37,252
2001	2,007	19,378	21,385
2002	4,478	29,295	33,773
2003	2,137	26,938	29,075
2004	19,258	9,817	29,075
Thereafter	134,891	29,091	163,982
	$ 198,506	116,036	314,542

(Continued)

B. *Discretely Presented Component Units*

(1) Public University Funds

The University of the Virgin Islands has issued the following notes payable (expressed in thousands):

	Final maturity	Interest rates	Balance
Note payable, secured by the primary government	2024	5.5%	$ 2,013
Unsecured notes payable	2001	6.49% to 6.67%	1,047
Total			$ 3,060

At September 30, 1999, the public university funds had a note payable related to the construction of certain academic facilities and a water distribution system which were completed during 1994. The amounts originally advanced by the U.S. Department of Education were converted to a note payable at that time. As of September 30, 1999, the amount outstanding was $2.01 million. The note is payable, along with the related interest, in semiannual installments of $75 thousand including interest, over a term of 30 years, and bears interest at an annual rate of 5.5 percent. The note is secured by a general obligation of the Government.

During 1996, the University borrowed approximately $2.7 million to help restore the damages suffered during 1995 as a result of the passage of Hurricane Marilyn. The borrowing was structured into two notes payable. The first note payable bears interest at 6.67 percent and is to be repaid in monthly principal and interest installments of approximately $24 thousand through July 1, 2001. As of September 30, 1999, the outstanding principal balance was $464 thousand. The second note payable bears interest at 6.49 percent and is repaid in monthly installments, including interest, of approximately $30 thousand through June 1, 2001. As of September 30, 1999, the outstanding principal balance was $583 thousand.

Future principal payments under the various notes are as follows (expressed in thousands):

Year ending September 30,	Amount
2000	$ 671
2001	459
2002	45
2003	48
2004	50
Thereafter	1,787
Total	$ 3,060

(Continued)

The University has issued the following bonds, the proceeds of which have been used mainly to finance new activities in connection with its educational facilities' construction program (expressed in thousands):

	Final maturity	Interest rates	Balance
General Obligation Bonds of 1994	2024	6.50% to 7.75%	$ 14,320
General Obligation Bonds of 1995	2002	6.12% to 7.82%	2,527
Various Building Bonds	2004	3.00% to 7.50%	902
			$ 17,749

The University issued the General Obligation Bonds of 1994 to be used for the financing or refinancing of the construction of the St. Croix and St. Thomas residence halls and ancillary facilities. These bonds have sinking fund requirements whereby principal payments and interest should be deposited quarterly into a debt service account held by the trustee. These bonds are general obligations of the University and are collateralized by gross revenue, excluding the required appropriations for debt service made by the Government.

On December 29, 1994, the University issued additional General Obligation Bonds totaling $5 million to be used for the refinancing of certain equipment. These bonds also require the University to establish a debt service reserve fund, which is to be maintained at a sum equal to 5 percent of the bond proceeds. These bonds are secured by the refinanced equipment and are to be repaid in semiannual installments of approximately $413 thousand, including interest.

The various building bonds payable as of September 30, 1999, are collateralized by mortgages on the University's property, by a pledge of the gross revenue derived from the operation of certain student and faculty housing and service facilities, a lien and pledge of funds available to the University for general operation purposes as required under the bond indenture agreements and by annual grant payments that the U.S. Government has agreed to fund as a debt subsidy. The bonds are subject to redemption at predetermined amounts, which may include penalties, as provided in the Indentures Agreements. These indentures require the University to meet certain funding requirements for repair and replacement reserves, and bond sinking funds.

(Continued)

Future amounts required to pay principal and interest on University System Bonds at September 30, 1999, are as follows (expressed in thousands):

Year ending September 30,	Principal	Interest	Total
2000	$ 720	1,212	1,932
2001	1,102	1,245	2,347
2002	1,090	1,171	2,261
2003	1,160	1,092	2,252
2004	385	1,036	1,421
Thereafter	13,292	13,848	27,140
Total	$ 17,749	19,604	37,353

(2) ***Public Benefit Corporations***

Bonds payable of public benefit corporations are those liabilities that are paid out of resources pledged by such corporations. These revenue bonds do not constitute a liability or debt of the Government. Bonds payable outstanding at September 30, 1999, are as follows (expressed in thousands):

Bonds payable	Final maturity date	Interest rates	Balance
Virgin Islands Water and Power Authority ("Electric System")	2021	4.25% to 5.40%	$ 110,910
Virgin Islands Water and Power Authority ("Water System")	2012	4.90% to 5.50%	44,190
Virgin Islands Port Authority	2005	3.45% to 4.50%	21,566
Subtotal			176,666
Plus: unamortized premium			251
Less: deferred amount on debt refunding			10,533
Bonds payable, net			$ 166,384

The bonds payable of the Virgin Islands Water and Power Authority ("Electric System") consist of Electric System Revenue and Refunding Bonds. The Electric System Revenue and Refunding Bonds amounting to $110.9 million were issued in June 1998. The proceeds from the bonds and approximately $14 million in funds from the existing debt service funds were used to repay the lines of credits of the Electric System in the amount of $18 million, to provide for approximately $30 million in funds for the construction of certain capital projects, and to pay underwriters discount and issuance costs of approximately $1.7 million.

The remaining proceeds were used to purchase direct obligations of the U.S. Government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining $69 million principal amount of 1991 Series A Electric System Revenue Bonds. At June 30, 1999, $66 million of the original principal amount of the defeased 1991 Bonds remained outstanding.

The advance refunding of the 1991 Series A Electric System Revenue Bonds resulted in a difference between the reacquisition price and the net carrying amount of the bonds of $7.1 million. This amount is recorded as a reduction of the new bonds and will be amortized as a component of interest expense through 2011. The Electric System completed the refunding to reduce the interest rate component of its bonds, to pay down its outstanding variable rate lines of credit, and to provide for additional funds to finance certain capital projects. The transaction decreased debt service payments related to the refunded debt by $5.2 million over the life of the new bonds and resulted in an economic gain of $3.1 million.

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 which may be established pursuant to the Bond Resolution for certain specified purposes), including the investments and income, if any, thereof. The Electric System's is required to make deposits in a debt service reserve fund or establish a letter of credit in favor of the bond trustee in accordance with the Bond Resolution. At June 30, 1999, the Electric System had established a letter of credit in the amount of $9.3 million to satisfy the debt service reserve requirements. The letter of credit expires July 2, 2001.

The Bond Resolution contains certain restrictions and commitments, including the Electric System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net electric revenue, as defined, that will be at least 125 percent of aggregate annual principal and interest. The Electric System's net electric revenue for the fiscal year ended June 30, 1999, were 204 percent of aggregate debt service.

The 1998 Series Electric System Revenue and Refunding Bonds are subject to redemption on or after July 1, 2008, as a whole or in part at any time at a redemption price of 101 percent in 2008, 100.5 percent in 2009 and 100 percent thereafter. The Electric System Revenue Bonds are subject to mandatory redemption if any significant part of the Electric System shall be damaged, destroyed, taken, or condemned, or any for-profit, nongovernmental investor shall acquire an ownership interest in some or all of the assets of the Authority.

The bonds payable of the Virgin Islands Water and Power Authority ("Water System") consist of Water System Revenue and Refunding Bonds. The Water System Revenue and Refunding Bonds amounting to $44.2 million were issued in December 1998. The proceeds from the bonds and approximately $750 thousand in funds from the existing debt service reserve fund were used to (i) repay the lines of credit balances of the Water System in the amount of $2 million (ii) to pay underwriters discount and issuance costs of approximately

$865 thousand, and (iii) to provide for $750 thousand in funding for a renewal and replacement reserve fund. The remaining proceeds were used to refund the 1990 Series A Bonds at a redemption price of 100 percent of the principal amount outstanding of $20.4 million, and to purchase obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining $17.8 million principal amount of the 1992 Series B Bonds.

The refunding of the 1990 Series A and 1992 Series B Bonds resulted in a difference between the reacquisition price and the net carrying amount of the bonds of $3.8 million. This amount is recorded as a reduction of the new bonds and will be amortized as a component of interest expense through 2011. The Water System completed the refunding to reduce the interest rate component of its bonds and to pay down its outstanding variable rate lines of credit. The transaction increased debt service related to the refunded debt by $9.8 million over the life of the new bonds as a result of extending the maturity date, and resulted in an economic gain of $2.4 million.

Payment of principal and interest of the 1998 Series Bonds is secured by an irrevocable lien on the Water System's net revenue (exclusive of any funds which 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, Water System has conveyed to the bond trustee, a subordinate lien and security interest in the Water System General Fund. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The Bond Resolution contains certain restrictions and commitments, including the Water System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net water revenue, as defined, that will be at least 125 percent of aggregate annual principal and interest payments. The Water System net water revenue for the year ended June 30, 1999 were 528 percent of aggregate debt service.

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 percent during July 1, 2009 through June 30, 2010 and 100 percent thereafter.

On October 28, 1998, the Virgin Islands Port Authority ("VIPA") issued the 1998 Airport Revenue Bonds Refunding Series A, the 1998 Rohlsen Terminal Airport Revenue Bonds Series A and the 1998 Marine Revenue Bonds Refunding Series A, with principal amounts of $19.3 million, $3.1 million and $2.7 million, respectively. The bonds were issued for the advance refunding of previously issued bonds. The refunding resulted in a debt service saving of approximately $3.2 million and an economic gain of $2.4 million.

The Airport Revenue Bonds constitute special obligations payable solely from, and secured by a pledge of, net revenue of VIPA derived from its Airport System (as defined), which consists of the airside and landslide operations at the Cyril E. King Airport in St. Thomas and airside operations at the Henry E. Rohlsen Airport in St. Croix. The Rohlsen Terminal Bonds constitute special obligations payable solely from, and secured by a pledge of, net revenue of VIPA derived from the Rohlsen Terminal. In addition, net marine revenue are pledged for payment of the Rohlsen Terminal Bonds if revenue from the Rohlsen Terminal are not enough to meet the debt service requirements. The Marine Revenue Bonds are secured solely by the net available revenue of VIPA's Marine Division.

The Airport Revenue Bonds, the Marine Revenue Bonds and the Rohlsen Terminal Bonds (collectively the "Bonds") shall under no circumstances constitute general obligations of VIPA, the Aviation or Marine Division, the U.S. Virgin Islands or the United States, neither shall the Bonds be evidence of a debt of the U.S. Virgin Islands nor the United States. The revenue of the Airport System are not available for the payment of principal or interest on the Marine Revenue Bonds or Rohlsen Terminal Bonds; likewise, the revenue of the Marine Division and the Rohlsen Terminal are not available to pay the principal or interest of the Airport Revenue Bonds except for any surplus of marine revenue which are available for any lawful purpose designated by VIPA. Neither the credit of the Government nor that of its political subdivisions is pledged or available for the payment of principal or interest on the Bonds. VIPA has no taxing power.

The Bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance, and other costs as specified in the corresponding bond indentures. Management believes that VIPA has established the aforementioned required accounts and has complied with the contribution requirements with respect to the Bonds. In addition, it is management's opinion that VIPA has complied with limitations and restrictions imposed by the Bonds indentures.

The Bonds' indentures also specify certain debt service coverage requirements determined from net available revenue of VIPA's Airport System, the Rohlsen Terminal and from the Marine Division. The provisions of each of the Bonds' indentures require that rates and fees charged for the use of each facility should be sufficient to generate enough revenue to pay all operation and maintenance expenses, exclusive of depreciation, of the respective facilities, plus (i) at least 125 percent of the principal and interest and redemption account sinking fund deposit requirement 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, (iv) the amount of the Capital Improvements Appropriations for such period. For fiscal years 1999 and 1998, VIPA met all the requirements described above.

(Continued)

VIPA entered into use agreements with certain airlines servicing the Airport System which provided the basis for determining landing fee rates and other charges to those airlines for the use of the Airport System facilities for as long as any of the Airport Revenue Bonds outstanding. The use agreements provide that in no event shall Airport System revenue be less than that required by the Airport Revenue Bond resolution.

The proceeds of the 1998 Airport Revenue Bonds and the 1998 Marine Revenue Bonds were used, together with certain other funds of VIPA, to (i) advance refund the outstanding aggregate principal amount of the 1989 Bonds and Marine notes, respectively, (ii) fund a required deposit to the debt service reserve fund, and (iii) pay certain costs of issuance of the respective bonds.

The Rohlsen Terminal Bonds were used to (i) pay, in part, the cost of construction of certain improvements, extensions, betterments, and additions to the HERA airport in St. Croix, (ii) fund a required deposit to the Debt Service Reserve Fund, and (iii) pay certain cost of issuance of the Rohlsen Terminal Bonds.

Fixed maturities required to pay principal and interest on public benefit corporations' bonds payable with fixed maturities at September 30, 1999, are as follows (expressed in thousands):

	Bonds payable		
Year ending September 30,	**Principal**	**Interest**	**Total**
2000	$ 7,006	7,932	14,938
2001	9,150	8,683	17,833
2002	8,790	8,268	17,058
2003	8,955	7,858	16,813
2004	9,385	7,434	16,819
Thereafter	133,380	63,678	197,058
Total	$ 176,666	103,853	280,519

10. Commitments and Contingencies

A. *Primary Government*

The current labor relations environment of the Government is defined by 13 distinct labor organizations subject to approximately 27 collective bargaining agreements and a total of 30 pay plans. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and nonprofessional workers, in different departments throughout the Government represented by different unions. Of the approximately 12,900 government workers, including employees of all three branches of the Government, approximately 9,400 belong to unions. The present collective bargaining statute requires binding arbitration in the event of an impasse during salary negotiations between the Government and any union. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen parties. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision. As a result of this process, the Government has contractual liabilities for retroactive union arbitration salary increases aggregating $220 million accruing from fiscal years 1993 through 1999. Pursuant to Title 24 of the V.I. Code section 374(h), no such contract is binding until appropriation of funds is made by the Legislature. Upon action of the Legislature, retroactive wages become a current liability of the Government payable from the general fund. At such time, it will be recorded as a liability in the general fund. At September 30, 1999, the liability for retroactive union arbitration salary is included in other long-term liabilities in the general long-term debt account group in the accompanying combined balance sheet.

The Government receives financial assistance from the federal government in the form of loans, grants and entitlements. Loans received are described in note 9(A)(3). Noncash federal financial assistance programs received by the Government during fiscal year ended September 30, 1999, amounted to approximately $23 million. Receipt of grants 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 the Office of Management and Budget ("OMB") Circular A-133. Disallowances as a result of these audits may become liabilities of the Government. At September 30, 1999, based on an evaluation of pending disallowances, the Government has recorded approximately $19.1 million as other long-term liabilities in the general long-term debt account group for this purpose.

The Government has not contracted the audits for fiscal year 1997 required by OMB Circular A-133 and the audit for fiscal year 1996 required by OMB Circular A-128 (applicable for that year). Management of the Government is discussing with representatives of the federal granting agencies the possibility of applying certain agreed-upon procedures in lieu of these pending federally-mandated audits.

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

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under the V.I. Code Title 33, section 3411(c), 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 the V.I. Code Title 27, section 166(e), the Government's waiver of immunity is expanded to $100,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in V.I. Code Title 33, section 3414, the Government may assume the payment of a judgment entered against an officer or employee of the Government for claims filed under federal statutes if the court which hears the case rules that said officer or employee 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 reported a provision for legal claims and judgments of approximately $5.5 million for awarded and anticipated unfavorable judgments. This amount was included as other long-term liabilities in the general long-term debt account group and represents the amount estimated as a probable liability or a liability with a fixed or expected due date which will require future available financial resources for its payment. Management believes that the ultimate liability in excess of amounts provided would not be significant.

State and federal laws and regulations require the Government to place a final cover on the Government landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site until compliance is achieved. In accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs" ("GASB No. 18"), the Government should perform a study of the activities that need to be implemented at the Government landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. In addition, GASB No. 18 requires that estimated landfill closure and postclosure care costs be accrued as a liability in the general purpose financial statements. The Government has not conducted the study needed to comply with the requirements of GASB No. 18, therefore, no liability has been accrued as of September 30, 1999.

The Moderate Income Housing Fund, reported as enterprise fund, is contingently liable for certain loans of individual borrowers.

The Government intends to use approximately $94 million of the proceeds of the Series 1998 E Bonds, together with certain federal funds amounting to approximately $61 million and other funding sources of approximately $15 million, to finance certain capital projects with estimated total costs of approximately $170 million. The nature of the capital projects include the construction and improvements to waste water treatment facilities, pursuant to a Consent Decree entered by the Government and the U.S. Environmental Protection Agency (the "EPA") in September 1995, with an estimated cost of approximately $41 million.

Under the Consent Decree with EPA, the Government is committed to: (i) construct two regional waste water treatment facilities in St. Thomas and St. John, (ii) construct an outfall extension for the waste water treatment plant in St. Croix, (iii) replace the Anguila Force Main in St. Croix, (iv) implement plant-by-plant operational improvements and pump station rehabilitation throughout the Territory, including the replacement of equipment, repairs and maintenance at 37 waste water facilities. These projects are currently funded by EPA and the bond proceeds (see note 9). As of September 30, 1999, $73 million of the proceeds of the Series 1998 E Bonds remained unexpended.

At September 30, 1999, the Government has applied, and is intending to apply to the federal government for funding of certain additional capital projects. In the event the Government receives federal funding for capital improvements which have been approved for financing from the proceeds of the Series 1999 E Bonds, the Government intends to reallocate such proceeds to other approved projects in accordance with the terms of the bond indenture.

B. *Public Benefit Corporations*

WAPA estimates that capital expenditures in connection with continuing capital improvements will be approximately $52.2 million during fiscal year 2000. WAPA is presently a defendant or codefendant in various lawsuits; however, any adverse outcome involving a material claim is expected to be substantially covered by the insurance. WAPA facilities were damaged by Hurricane Hugo in September 1989. WAPA reconstructed its system with proceeds from insurance and FEMA. On March 23, 1998, FEMA issued an audit report concluding that WAPA should refund approximately $7.9 million aggregated 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 WAPA's second appeal and formally closed the Hurricane Hugo disaster. At June 30, 1999, WAPA has recorded a liability of $5.3 million for amounts owed to FEMA for overpayments related to these questioned costs. Currently, FEMA and its sub-recipient, the Government, do not have a mechanism in place for recovering the overpayment of disaster related funds. In addition, FEMA has not made a formal request for repayment of these funds.

In September 1995, WAPA's facilities suffered extensive damage from Hurricane Marilyn. During 1996, WAPA reconstructed its system with proceeds from insurance and FEMA. In March 1999, FEMA denied WAPA's claim for $8.9 million of remaining expenditures related to the reconstruction. WAPA has subsequently reduced its claim to $5.7 million and is currently negotiating with FEMA regarding reimbursement of these remaining expenditures. Although management of WAPA believes the ultimate resolution of this matter will result in WAPA receiving additional reimbursement for prior expenditures, WAPA has not recorded any amounts to reflect these potential recoveries in the accompanying financial statements.

In September 1998, WAPA facilities suffered minor damage from Hurricane Georges. During 1999, WAPA repaired its system with proceeds from insurance and through internal funds. In August 1999, FEMA denied WAPA's claim for reimbursement of $1.3 million of expenditures for the reconstruction related to the damage. FEMA determined that WAPA's insurance fund should be utilized prior to reimbursement from any federal programs. WAPA is currently in the process of submitting an appeal regarding this ruling. In management's option, the resolution of this matter will not have a material adverse effect on WAPA's result of operations, financial position or cash flows.

WAPA has available lines of credit for $12.5 million and $7.5 million with banks for both the Electric and Water Systems combined at June 30, 1999. Interest on amounts borrowed is payable quarterly at a variable interest rate of either prime plus 1 percent LIBOR plus 1.5 percent or 150 basis points above the interest rate on three year U.S. Government treasury notes. WAPA has the

(Continued)

option to select the variable interest rate to utilize. At June 30, 1999, the weighted average interest rate was 6.7 percent. At June 30, 1999, there were no amounts outstanding under the lines of credit for neither the Electric or Water Systems, and $20 million was available for borrowing under these lines. Both lines of credit expire on June 30, 2002, subject to annual renewal.

In connection with federal grants programs, VIPA is obligated to administer and spend the grant money in accordance with regulatory restrictions, and is subject to audit by the grantor agencies. In cases of noncompliance, the agencies involved may require VIPA to refund programs moneys. During the normal course of business, VIPA is a defendant in various lawsuits. In the opinion of the management and legal counsel, the outcome of these cases and resulting liability, if any, is either adequately covered by insurance or should not materially affect VIPA's financial position.

11. Retirement Systems

A. *Plan Description*

GERS is the administrator of a cost-sharing multiple-employer defined-benefit pension plan established as of October 1, 1959, by the Government to provide retirement, death and disability benefits to its employees. The following description of the plan is provided for general information purposes only. Refer to the actual text of the retirement law in the V.I. Code, Title 3, Chapter 27 for more complete information. Regular employees are eligible for a full service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Members who are considered "Safety Employees," as defined in the V.I. Code, are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and completed six years of credited service or earned at least six years of credited service as a member of the Legislature. GERS is a blended component unit included in the financial reporting entity and is presented as a pension trust fund of the primary government. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees Retirement System of the Government of the Virgin Islands, GERS Complex, Veterans Drive, St. Thomas, V.I. 00802.

B. *Funding Policy*

The Government's required contribution for the year ended September 30, 1999, was 14.5 percent of the member's annual salary. Since April 1, 1991, required member contributions are 8 percent of annual salary for regular employees, 9 percent for senators and 10 percent for Act 5226 eligible employees. Member contributions are refundable without interest upon withdrawal from employment before retirement. The Government's contributions to the plan for the years ended September 30, 1999, 1998 and 1997, amounted to $45.1 million, $45.9 million and $47.7 million, respectively, that represented 72.54 percent, 73.48 percent and 81.89 percent of the required contributions for each year.

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 three 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 four percentage points.

For each employee electing to retire pursuant to Section 8(a) of the Act, the Government shall contribute 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 shall contribute to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4 percent higher during the three years used to compute the employee's "average compensation" figure, plus a sum of $5 thousand. Based on the calculation, this amount is approximately $1.9 million. As of September 30, 1999, GERS has received $236 thousand of this amount.

The actuaries of GERS have determined that the specific funding provided under the Early Retirement Act of 1994 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 employer shall compensate GERS for the costs of any special early retirement program.

GERS was subject to a lawsuit for relief and damages arising out of Act No. 6088, which offered early retirement incentives to certain government employees. A judgment was reached in favor of the employees in October 1998. Accordingly, at September 30, 1998, GERS recorded approximately $2.4 million of benefits and approximately $600 thousand of legal fees.

The following presentation displays the Statement of Plan Net Assets for GERS as of September 30, 1999 (amounts in thousands):

Assets	
Investments:	
Marketable securities:	
U.S. government and government-guaranteed obligations	$ 240,958
Corporate obligations	119,025
Foreign bonds	54,563
Common stock – U.S.	448,295
Common stock – foreign	71,733
Collaterized debt obligations	57,361
Mutual funds	87,264
	1,079,199
Member loans:	
Mortgage	33,720
Personal and auto	68,537
Less allowance for losses	(3,000)
	99,257
Real estate	43,775
Invested securities lending collateral	176,572
Cash and cash equivalents	29,563
Unsettled securities sold	9,107
Other assets	17,242
	1,454,715
Liabilities	
Securities lending collateral	176,572
Unsettled securities purchased	16,061
Accounts payable and accrued expenses	6,871
	199,504
Plan net assets held in trust for pension benefits	$ 1,255,211

In addition to GERS, all eligible employees of the University of the Virgin Islands are required to participate in the Teachers Insurance and Annuity Association – College Retirement Equities Fund ("TIAA-CREF") which 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. As of September 30, 1999, approximately 187 faculty members and other employees were TIAA-CREF participants.

12. Segment Information – Enterprise Funds

The enterprise funds are composed of approximately 31 funds and two entities that provide a variety of services to commercial and government entities as well as individuals. It includes the operation of dock facilities, a shopping mall and the lottery. Services include loan programs, insurance, housing facilities, commercial services, and others.

The significant funds and entities are as follows:

A. Virgin Islands Lottery (unaudited)

The Virgin Islands Lottery (the "Lottery") was created as an instrumentality of the Government by Act No. 3055 of May 28, 1971. The revenue are generated from the sale of tickets to pay administrative expenses and prizes and increase general fund revenue. The Lottery is required to transfer to the general fund not less than 8 percent of total revenue and the surplus, if any, from its operation in accordance with Title 32 of the V.I. Code. The prize money of a drawing for which the winning ticket is not sold, is carried over and added to the prize money of the next drawing. Any unclaimed prizes, after six months of being awarded, are retained by the Lottery for the payment of future prizes.

B. Government Insurance Fund

The Government Insurance Fund accounts for the operating results of the administration of the Workmen Compensation Law. The law was created on July 1, 1941, to insure workers in the event of work-related accidents. Revenue consist of premiums collected from all employers in the Virgin Islands. Expenses are mainly administrative and benefits provided to covered employees. Temporary benefits provided include medical rehabilitation, restoration of a portion of lost wages and vocational rehabilitation, when necessary. Continuous income benefits are paid for permanent total disability, lapsing upon death of the recipient.

C. The West Indian Company

The West Indian Company ("WICO") is engaged in the operation of a dock facility and shopping mall in St. Thomas. The Government acquired all of the outstanding stock of WICO, on July 1, 1993, for a purchase price of $54 million. In connection with the purchase, the Government obtained a short-term note payable amounting to $18 million. On December 21, 1993, the note payable was refinanced with a long-term loan amounting to $18.2 million with interest rate of 5.75 percent payable in monthly installments of $127 thousands, including interest and a final payment comprised of the principal sum outstanding and all accrued unpaid interest to the date of the final payment. The revenue of WICO are pledged for the payment of principal and interest on the loan. Future minimum payments of principal are as follows (expressed in thousands):

Year		Principal
2000	$	693
2001		734
2002		778
2003		824
2004		872
Thereafter		10,949
Total	$	14,850

Condensed financial information of significant funds and entities presented under the enterprise funds column is as follows (expressed in thousands):

		(Unaudited) Virgin Islands Lottery	Government insurance fund	The West Indian Company	Others	Total
Operating revenue	$	13,435	20,417	8,570	23,517	65,939
Operating expenses		14,313	8,230	6,267	28,049	56,859
Operating income (loss)		(878)	12,187	2,303	(4,532)	9,080
Operating transfers to other funds, net		—	—	(1,229)	—	(1,229)
Others		640	—	(423)	—	217
Net income (loss)	$	(238)	12,187	651	(4,532)	8,068
Current assets	$	1,330	1,683	7,269	(4,442)	5,840
Current liabilities		4,301	2,577	1,459	536	8,873
Net working capital (deficiency)		(2,971)	(894)	5,810	(4,978)	(3,033)
Other assets		254	85	26,357	13,723	40,419
Other liabilities		—	214	14,850	5,065	20,129
Fund equity (deficit)	$	(2,717)	(1,023)	17,317	3,680	17,257

13. Liquidity

At September 30, 1999, the Government had a general fund unreserved deficit amounting to $345 million. The projected unaudited general fund unreserved deficit at September 30, 2000, amounts to approximately $213 million. The Government has initiated specific actions to improve its future cash flows through the issuance of long-term debt, engaging a consulting firm to assist them in their efforts to develop a series of detailed revenue enhancement and expenditure reduction initiatives and the enactment of certain laws directed toward improving the Government's financial situation (see note 15).

14. Restatements

The beginning fund balance for the year ended September 30, 1999, of the Public University Fund ("University") have been restated to reflect the inclusion of the Foundation for the Reichhold Center of the Arts as a component unit of the University, pursuant to the provisions of the Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity." In addition, the beginning fund balances of the general fund and capital project fund have been restated to reflect a reimbursement to the capital project fund of prior year revenue incorrectly recorded in the general fund.

The following table summarizes the restatements of the beginning fund balances for the year ended September 30, 1999 (expressed in thousands):

		General fund	Capital Project fund	Public University Fund
Fund balance (deficit), as previously reported – September 30, 1998	$	(193,584)	124,208	79,144
Restatement to reflect the inclusion of the component unit		—	—	15,343
Restatement to reflect the reimbursement		(34,100)	34,100	—
Beginning fund balance (deficit), as restated – September 30, 1999	$	(227,684)	158,308	94,487

15. Subsequent Events

Primary Government

In October 1999, the Government and the U.S. Department of Interior ("DOI") entered into a Memorandum of Understanding (the "MOU") whereby the Government agreed to use its best efforts to undertake certain deficit reduction initiatives. As a condition to certain new and additional federal financial and technical assistance included in or being proposed in federal appropriations or other legislation, certain financial performance and accountability standards were agreed upon by the

Government which the DOI believes are necessary for the Government to achieve long-term economic recovery. Pursuant to the MOU, the release of such new and additional federal funds to the Government would be subject to compliance with such performance and verifiable objectives agreed upon in such agreement. The accountability and financial performance standards agreed upon in the MOU include: (i) preparation of five-year financial recovery plan to be provided to DOI within 90 days of the date of the MOU; (ii) a fiscal year 2000 budget mandating substantial reductions in departmental budgets and overall general fund fiscal year 2000 expenditures not to exceed $432.1 million; (iii) absent extraordinary circumstances, to maintain balanced budgets after fiscal year 2003 with any generated surpluses applied to the reduction of the accumulated deficit and unfunded obligations; (iv) annual preparation of financial reports, and (v) efforts to reduce the outstanding debt of the Government. On October 29, 1999, the DOI and the Government entered into an amendment of the MOU which amended the Government's requirement to seek change in the Virgin Islands public labor relations law to comply with federal labor law. Pursuant to such amendment, the Government, in collaboration with union representatives, is encouraged to pursue reform initiative through collective bargaining to bring fiscal solvency to the Government. In addition to the financial performance standards set forth in the MOU, the MOU further provides for the DOI and the Government to enter into a program of preservation and enhancement of the natural, cultural and historic resources of the U.S. Virgin Islands to stimulate local economic growth through sustainable tourism.

In October 1999, the U.S. Congress passed an amendment to the Revised Organic Act, which authorized the Government to issue general obligation bonds for any public purpose approved by the Legislature. The President signed the bill into law on October 28, 1999. Prior to the amendment, the Revised Organic Act restricted the Government to issuing general obligation debt only for certain capital improvement projects set forth in the Revised Organic Act.

In November 1999, the Virgin Islands Public Finance Authority issued Revenue Bonds amounting to $299.8 million. The bond proceeds were loaned to the Government pursuant to the Gross Receipt Tax Loan Note. The loan is secured by a pledge of gross receipt taxes. The proceeds will be used to pay certain working capital obligations of the Government, (including up-front costs of an employee retirement incentive plan, additional working capital obligations, unpaid income tax refunds owed), pay the 1999 Tax and Revenue Anticipation Notes, fund the Debt Service Reserve Account and pay costs of issuance.

In November 1999, the U.S. Congress approved an increase in the rate of federal excise taxes on rum transferred to the Government from $10.50 to $13.25 per proof gallon. The increase was retroactive to July 1999 and will be effective through 2001. On February 2, 2000, the Government received a $16.7 million payment from the U.S. government related to the rate increase that covered from July 1999 through fiscal year 2000.

The Government understands that it is incompliance with the Standards of Financial Performance and Accountability as outlined in the MOU.

In November 1999, the Legislature enacted the Fiscal Year 2000 Omnibus Authorization Act (Act No. 6333) and adopted several measures in order to find solutions to the territory's fiscal problems that include: (i) authorizing the Governor within 90 days of the enactment of this Act, to reconsider or renegotiate all governmental leases entered into through the Department of Property and Procurement; (ii) authorizing the Governor to submit plans to the Legislature for the privatization of government services; and (iii) authorizing the Governor to enter into a contract with any professional authorized to do business in the Virgin Islands to collect any tax due or other indebtedness owed to the Government of the Virgin Islands.

Also, upon enactment of Act No. 6333, the Legislature of the Virgin Islands created the Youth Education and Training Endowment Fund. As depicted in the Act, the Fund consisted of the remainder of the $8 million received by the Government of the Virgin Islands, pursuant to the third extension and Amendment Agreement between the Government, Hess Oil Virgin Island, Corp. and Petroleos de Venezuela, S.A.V.I., Inc., public or private monetary grants, gifts, donations, bequests or devices, and all sums appropriated thereto from time to time, by the Legislature of the Virgin Islands. The purpose of the fund is to pay for vocational, general and technical education programs and environmental assessment programs.

In April 2000, the Economic Recovery Task Force submitted the five-year Operating and Strategic Financial Plan to the Governor for action. The plan provides over 200 recommendations that propose to reduce and eventually eliminate the structural budget deficit by restructuring and reforming Government operations and forging a partnership with the private sector intended to result in sustained growth.

In May 2000, the Government established the Cramers Park Authority (the "Authority"), a corporate instrumentality of the Government upon the issuance of Act No. 6351. The Authority was formed in order to plan and execute a continuing constructive program in the field of community recreation and with the purpose of acquiring, improving and operating parks and beaches. The powers of the Authority will be exercised by a board of seven directors appointed by the Governor

In October 2000, the Congress approved the Foreign Sales Corporation Repeal Act to eliminate the tax exemptions to U.S. Corporations that created subsidiaries, known as Foreign Sales Corporation ("FSC") in jurisdiction like the U.S. Virgin Islands to handle their sales abroad. FSC qualified to do business in the U.S. Virgin Island pay a franchise tax of $1.50 for each thousand dollars of capital stock issued. FSC doing business in the U.S. Virgin Islands will be subject to franchise tax until December 31, 2001.

In October 2000, due to the financial condition of the Government and given the fact that there were a number of employees who were eligible to retire from Government service, the Legislature, as a means of finding additional options to achieve a reduction in expenditures, enacted the Public Employees Voluntary Separation Incentive Act of 2000 (Act No. 6361). This Act offered government employees with over 30 years of credited service who elected to separate voluntarily under the provisions of this Act an amount equal to, a 15 percent of their gross annual salary to unclassified employees and 20 percent to classified employees, payable within 45 days of the member voluntary separation. In addition, employees with 28 and 29 years of credited service were able to buy up to two years of service for a maximum of 30 years of credited service and retire from the government. GERS actuary estimated that if all eligible employees who had between 28 and 30 years of credited service elected this option the total cost for GERS would have been $19 million.

Upon enactment of Act No. 6361 in October 2000, the Governor appropriated $11 million to the Virgin Islands Department of Education to pay salary increases. The salary increases are going to be funded through contributions from WICO ($1 million), WAPA ($1 million), VIPA ($4 million) and the V.I. Insurance Guaranty Fund ($5 million).

In December 2000, Title 29 of the V.I. Code was amended by Act No. 6390 which created the Economic Development Authority ("EDA"). EDA is created as a body corporate and politic constituting a public corporation and semi-autonomous instrumentality of the Government, which shall be governed by a board consisting of seven members appointed by the Governor. The purpose was to create an umbrella authority to assume, integrate and unify the functions of the Government Development Bank, the Industrial Development Commission, the Industrial Park Development Corporation, and the Small Business Development Agency under one executive board. This unification was designed in order to achieve maximum efficiency of operations, avoid duplication of services, positions and responsibilities, reduce expenses for personnel, physical plant and operations, and develop comprehensive programs for the economic development of the territory.

In December 2000, in an effort to improve the economic predicaments confronted by the Government, the Legislature adopted certain revenue enhancing and collecting measures compiled and depicted in the Fiscal Year 2001 Omnibus Authorization Act No. 6391. Measures such as the following were placed in order to achieve the Government's objectives: (i) a six-month amnesty period was enacted (Property and Gross Receipts Tax Amnesty) in which all interest and penalties related to the payment of property and gross receipt taxes were waived; (ii) a housing reorganization established in order to consolidate the housing entities of the Government through restructuring of the housing divisions of the Department of Housing, Parks and Recreations, Virgin Islands Housing Finance Authority, and Virgin Islands Housing Authority; (iii) the V.I. Code was amended making it optional for members of the judiciary to join the Government's pension plan; (iv) authorized the Governor to negotiate for the design construction, management and financing of a hotel, casino and conference center to be located on VIPA land located in St. Croix; (v) authorized the Governor to approve a contract for the design, development, construction, operation, and financing of a Solid Waste and Resource Recovery Facilities; and (vi) established the Virgin Island's Tax Study Commission, composed of seven members that will analyze and study V.I.'s laws and regulations relating to taxes, licenses and fees to determine which laws or regulations should be continued, revised, abolished or replaced by new revenue measures to eliminate any undue burdens on tax payers.

In November 2000 and April 2001, GERS filed two lawsuits against the Government alleging that increasing early retirement benefits without increasing the Government's contribution is unconstitutional since it forces GERS to bear the financial burden of implementing the Public Employees Voluntary Separation Incentive Act of 2000. GERS is seeking that the court order the Government to stop increasing the benefits without increasing the contributions. It is also requesting that the up-front payment method only be used to buy the years of service as permitted in the Act No. 6361 of October 2000.

Public University Funds

In December 1999, the University of the Virgin Islands (the "University") issued 1999 Series A Bonds to finance a portion of the costs of the construction, furnishing and equipping of various facilities of the University, to refund $14.1 million outstanding principal amount of General Obligation Bonds 1994 Series A issued by the University, to fund a debt service reserve fund for the 1999 Series A Bonds, and to pay certain costs of issuance of the 1999 Series A Bonds. The Bonds are secured by a pledge of all the University's gross revenue except those appropriations made by the Government of the Virgin Islands to the University which either as a matter of law or by the terms cannot be applied to debt service payments on the Bonds.