KPMG

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

General Purpose Financial Statements

September 30, 2000

[THIS PAGE IS INTENTIONALLY LEFT BLANK]

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Table of Contents

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Table of Contents

American International Plaza
Suite 1100
250 Ave. Muñoz Rivera
San Juan, PR 00918-1811

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, 2000, 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, a blended component unit, which represents the following indicated percentages of total assets and total revenue, respectively, of the special revenue funds (1% respectively, for each), the debt service funds (83% and 52%), the capital projects funds (80% and 52%), 1% of the total assets of the trust and agency funds and 60% of total liabilities of the general long-term debt account group. Certain transactions related to bonds issued during the year were recorded in the general fund. The purpose of the proceeds was to provide funds to the Government for working capital needs. The balances originated by these transactions represent 44% of total assets and 78% of total other financing sources of the general fund.
- The Virgin Islands Port Authority, the Virgin Islands Industrial Park Development Corporation, the Virgin Islands Housing Authority, the Governor Juan F. Luis Hospital and Medical Center, and the Virgin Islands Public Television System, discretely presented component units, which represent 58% and 38%, 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 four 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 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 4% and 35% of total assets and total revenue, respectively, in such column.

Our independent auditors' report on the 2000 financial statements of the Employees' Retirement System of the Government of the Virgin Islands (GERS), a component unit blended in the trust and agency funds (pension trust fund), was qualified: (i) because we were not able to obtain sufficient audit evidence to determine whether adjustments were required to the financial statement cash overdraft balance with the Department of Finance of the Government of approximately $18.7 million in specially designated pooled accounts; and (ii) we were unable to obtain sufficient audit evidence through independent confirmation or other alternative audit procedures about the reasonableness of amounts due from the Department of Finance amounting to approximately $5 million. 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, 2000. 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, 2000, may have been affected by these conditions.

The report of other auditors on the 2000 financial statements of Governor Juan F. Luis Hospital and Medical Center (Juan F. Luis Hospital), a discretely presented component unit, was qualified because: (i) they were unable to obtain sufficient evidential information to assure the realizability of patient accounts receivable of $2.8 million at September 30, 2000; and (ii) they were unable to obtain sufficient audit evidence that $3.4 million of preautonomy accounts payable not recorded as a liability by the Juan F. Luis Hospital are the responsibility of the Government. Also, the other auditors did not express an opinion on the Juan F. Luis Hospital statements of revenue, expenses, and changes in fund equity and cash flows, since they were unable to apply sufficient audit procedures to satisfy themselves about the propriety of the transactions recorded in the balance sheet in the public benefit corporations' column as of September 30, 1999.

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.

As more fully described in note 2, the general purpose financial statements referred to above do not include financial data of the Governor Roy L. Schneider Hospital, 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 effect of this departure from accounting principles generally accepted in the United States of America on the public benefit corporations' column has 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.

As more fully described in note 13, 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 $82 million at September 30, 2000. Further as discussed in note 13, 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 is discussing with DOI certain events of noncompliance, the remedial action necessary to comply with the provisions of the MOU, and its effect on the Government's financial condition and results of operations. The accompanying general purpose financial statements do not include any adjustments that may result from these events of noncompliance.

Because of the matters discussed in the fourth and sixth 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, 2000, 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 on the general purpose financial statements of the trust and agency funds of such adjustments, if any, as might have been determined to be necessary, had we been able to satisfy ourselves about: (i) the amount of cash on deposit with the Department of Finance of the Government; and (ii) the amounts due from the Department of Finance as of September 30, 2000, as discussed in the fifth paragraph of this report;
- the effects on the public benefit corporations' column of the adjustments, if any, as might have been determined to be necessary on the financial data of Juan F. Luis Hospital, had the other auditors been able to satisfy themselves about: (i) the realizability of patient accounts receivable as of September 30, 2000; (ii) management's contention that the preautonomy accounts payable not recorded as a liability as of September 30, 2000 were responsibility of Government; and (iii) the propriety of the transactions recorded in the balance sheet as of September 30, 1999 as discussed in the seventh paragraph of this report;
- the effects of the omission of the general fixed assets account group as discussed in the eighth 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 ninth paragraph of this report; and

- the effects of the omission of financial data of the Governor Roy L. Schneider Hospital in the public benefit corporations' column as discussed in the tenth paragraph of this report;
- the effects of not accounting for landfill closure and postclosure costs in the general long-term debt account group, as discussed in the eleventh 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, 2000, 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.

KPMG LLP

January 25, 2002

Stamp No. 1747020 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

[THIS PAGE IS INTENTIONALLY LEFT BLANK]

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

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

September 30, 2000
(In thousands)

	Government fund types				(Unaudited) proprietary fund type
	General	Special revenue	Debt service	Capital projects	Enterprise
Assets and Other Debits					
Cash and cash equivalents (note 4)	$ 20,291	25,076	21,945	—	—
Investments (note 4)	102,052	9,333	123,784	73,716	5,000
Receivables, net (note 5):					
Taxes	45,528	—	4,174	—	—
Federal government	—	23,010	—	1,907	—
Accounts	—	—	—	—	2,151
Loans and advances	—	—	—	—	10,519
Interfund loan (note 6)	—	3,100	—	11,500	—
Accrued interest	154	128	—	16	142
Other	343	191	—	128	38
Due from (note 6):					
Other funds	8,870	7,500	—	21,677	300
Primary government	—	—	—	—	—
Component units	3,727	—	—	1,000	—
Federal government	—	—	—	—	—
Inventories	—	—	—	—	467
Food stamp coupons	—	7,029	—	—	—
Restricted assets (notes 4, 7, and 9):					
Cash and cash equivalents	—	—	—	—	1,804
Investments	—	—	—	—	271
Other	—	—	—	—	—
Fixed assets, net (note 8)	—	—	—	—	32,967
Deferred charges	—	—	—	—	557
Other assets	—	—	—	—	1,668
Other debits:					
Amount available for debt service	—	—	—	—	—
Amount to be provided for retirement of general long-term obligations	—	—	—	—	—
Total assets and other debits	$ 180,965	75,367	149,903	109,944	55,884

(Continued)

Fiduciary fund type: Trust and agency	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)
140,361	—	207,673	20,579	33,045	261,297
1,385,732	—	1,699,617	145	17,360	1,717,122
—	—	49,702	—	—	49,702
—	—	24,917	—	—	24,917
5,963	—	8,114	2,589	39,935	50,638
99,753	—	110,272	534	3,558	114,364
—	—	14,600	—	—	14,600
7,992	—	8,432	—	—	8,432
14,226	—	14,926	426	37,143	52,495
16,993	—	55,340	—	—	55,340
—	—	—	2,830	4,059	6,889
—	—	4,727	—	—	4,727
—	—	—	2,640	10,116	12,756
—	—	467	573	17,510	18,550
—	—	7,029	—	—	7,029
—	—	1,804	4,454	30,177	36,435
—	—	271	22,812	10,742	33,825
—	—	—	3,541	—	3,541
12,179	—	45,146	86,246	526,033	657,425
—	—	557	3,374	3,760	7,691
20	—	1,688	—	20	1,708
—	109,848	109,848	—	—	109,848
—	1,253,246	1,253,246	—	—	1,253,246
1,683,219	1,363,094	3,618,376	150,743	733,458	4,502,577

(Continued)

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

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

September 30, 2000
(In thousands)

	Government fund types				(Unaudited) proprietary fund type
	General	Special revenue	Debt service	Capital projects	Enterprise
Liabilities					
Accounts payable and accrued liabilities	$ 50,529	12,387	—	8,885	4,643
Tax refunds payable	68,017	—	—	—	—
Securities lending transaction	—	—	—	—	—
Customer deposits	—	—	—	—	—
Due to (note 6):					
Other funds	38,535	478	—	11,755	4,475
Primary government	—	—	—	—	—
Component units	6,889	—	—	—	—
Federal government (note 10)	—	—	—	—	—
Interest payable	—	—	—	—	—
Deferred revenue	35,060	13,442	40,055	—	1,805
Line of credit	—	—	—	—	—
Notes payable (note 9)	—	—	—	—	20,347
Bonds payable (note 9)	—	—	—	—	—
Interfund loan payable (note 6)	14,600	—	—	—	—
Other liabilities	—	—	—	—	4,328
Other long-term liabilities (note 10)	—	—	—	—	—
Total liabilities	213,630	26,307	40,055	20,640	35,598
Fund Equity (Deficit) and Other Credits					
Contributed capital	—	—	—	—	6,000
Investment in general fixed assets	—	—	—	—	—
Retained earnings:					
Reserved	—	—	—	—	12,959
Unreserved	—	—	—	—	1,327
Fund balances (deficit):					
Reserved for:					
Encumbrances	45,529	—	—	—	—
Debt service	—	—	109,848	—	—
Employees' pension benefits	—	—	—	—	—
Unemployment benefits	—	—	—	—	—
Capital projects	—	—	—	89,304	—
Other specified purposes	3,727	—	—	—	—
Unreserved:					
Designated for specified purposes	—	—	—	—	—
Undesignated (note 13)	(81,921)	49,060	—	—	—
Total fund equity (deficit) and other credits	(32,665)	49,060	109,848	89,304	20,286
Commitments and contingencies (notes 9, 10, 11, and 15)					
Total liabilities, fund equity (deficit) and other credits	$ 180,965	75,367	149,903	109,944	55,884

See accompanying notes to general purpose financial statements.

Fiduciary fund type: Trust and agency	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)
52,321	—	128,765	6,546	57,592	192,903
—	—	68,017	—	—	68,017
164,734	—	164,734	—	—	164,734
—	—	—	131	14,109	14,240
97	—	55,340	—	—	55,340
—	—	—	—	4,727	4,727
—	—	6,889	—	—	6,889
—	—	—	—	5,557	5,557
—	—	—	—	4,249	4,249
—	—	90,362	2,433	17	92,812
—	—	—	—	10,000	10,000
—	134,225	154,572	2,419	753	157,744
—	851,935	851,935	27,099	160,268	1,039,302
—	—	14,600	—	—	14,600
60,221	—	64,549	430	989	65,968
—	376,934	376,934	—	—	376,934
277,373	1,363,094	1,976,697	39,058	258,261	2,274,016
—	—	6,000	—	195,732	201,732
—	—	—	66,974	4,669	71,643
—	—	12,959	—	108,824	121,783
—	—	1,327	—	165,972	167,299
—	—	45,529	—	—	45,529
—	—	109,848	5,630	—	115,478
1,330,090	—	1,330,090	—	—	1,330,090
57,399	—	57,399	—	—	57,399
—	—	89,304	—	—	89,304
—	—	3,727	30,217	—	33,944
—	—	—	6,076	—	6,076
18,357	—	(14,504)	2,788	—	(11,716)
1,405,846	—	1,641,679	111,685	475,197	2,228,561
1,683,219	1,363,094	3,618,376	150,743	733,458	4,502,577

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, 2000
(In thousands)

	Government fund types				Fiduciary fund type	Totals
	General	Special revenue	Debt service	Capital projects	Expendable trust	(memorandum only)
Revenue:						
Taxes	$ 334,869	5,253	141,346	1,519	—	482,987
Federal grants	—	133,362	—	11,353	12	144,727
Charges for services	5,287	2,814	—	202	—	8,303
Interest and other	38,889	15,257	5,372	6,669	19,901	86,088
Total revenue	379,045	156,686	146,718	19,743	19,913	722,105
Expenditures:						
Current:						
General government	128,643	43,526	—	—	11,350	183,519
Public safety	38,260	5,822	—	—	—	44,082
Health	30,979	21,014	—	—	—	51,993
Public housing and welfare	30,190	49,093	—	—	—	79,283
Education	104,520	25,865	—	—	—	130,385
Economic and agricultural development	20,332	138	—	—	—	20,470
Transportation and communication	24,779	27	—	—	—	24,806
Culture and recreation	9,435	10,963	—	—	—	20,398
Capital outlays	—	—	—	73,888	—	73,888
Debt service:						
Principal	—	—	12,745	—	—	12,745
Interest	—	—	38,851	—	—	38,851
Total expenditures	387,138	156,448	51,596	73,888	11,350	680,420
Excess (deficiency) of revenue over (under) expenditures (note 13)	(8,093)	238	95,122	(54,145)	8,563	41,685
Other financing sources (uses) (notes 6 and 9):						
Proceeds from long-term debt issues	269,000	—	23,326	—	—	292,326
Operating transfers from other funds	73,822	3,750	201	21,677	5,579	105,029
Operating transfers to other funds	(32,236)	(1,000)	(57,215)	(4,750)	(13,029)	(108,230)
Operating transfers to component units	(47,046)	—	—	—	—	(47,046)
Total other financing sources (uses), net	263,540	2,750	(33,688)	16,927	(7,450)	242,079
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	255,447	2,988	61,434	(37,218)	1,113	283,764
Fund balances (deficit) at beginning of year as restated (note 14)	(288,112)	46,072	48,414	126,522	74,643	7,539
Fund balances (deficit) at end of year	$ (32,665)	49,060	109,848	89,304	75,756	291,303

See accompanying notes to general purpose financial statements.

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, 2000
(In thousands)

	Budget	Actual	Variance
Revenue:			
Taxes	$ 427,480	334,869	(92,611)
Charges for services	9,439	5,104	(4,335)
Interest and other	37,156	38,153	997
Total revenue	474,075	378,126	(95,949)
Expenditures:			
Current:			
General government	126,021	128,184	(2,163)
Public safety	41,060	38,929	2,131
Health	28,143	24,726	3,417
Public housing and welfare	31,638	31,231	407
Education	130,711	109,010	21,701
Economic and agricultural development	9,769	19,672	(9,903)
Transportation and communication	23,156	25,031	(1,875)
Culture and recreation	10,887	9,597	1,290
Total expenditures	401,385	386,380	15,005
Excess (deficiency) of revenue over expenditures	72,690	(8,254)	(80,944)
Other financing sources (uses) (notes 6 and 9):			
Proceeds from long-term debt	269,000	269,000	—
Operating transfers from other funds	16,994	73,822	56,828
Operating transfers to other funds	(10,204)	(32,236)	(22,032)
Operating transfers to component units	(65,654)	(47,046)	18,608
Total other financing sources (uses), net	210,136	263,540	53,404
Excess of revenue and other financing sources over expenditures and other financing uses	$ 282,826	255,286	(27,540)

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, 2000
(In thousands)

Additions:	
Contributions:	
Employer	$ 44,078
Plan member	26,065
Total contributions	70,143
Investment income:	
Net appreciation of fair value of investments (note 4)	59,882
Interest and dividends	47,782
Real estate – rental income (net of related expenses)	4,554
	112,218
Less investment expense	3,813
Net investment income	108,405
Total additions	178,548
Deductions:	
Benefits paid	90,662
Refunds of contributions	4,257
Administrative and operational expenses	8,750
Total deductions	103,669
Net increase	74,879
Net assets held in trust for pension benefits:	
Beginning of year	1,255,211
End of year	$ 1,330,090

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, 2000
(In thousands)

	(Unaudited) primary government proprietary fund type	Component units
	Enterprise	**Public benefit corporations**
Operating revenue – charges for services	$ 40,978	205,953
Operating expenses:		
Cost of services	39,939	209,023
Other	—	7,057
Depreciation and amortization	959	38,588
Total operating expenses	40,898	254,668
Operating income (loss)	80	(48,715)
Nonoperating revenue (expenses):		
Operating grants	—	26,004
Interest income	447	3,769
Interest expense	(978)	(10,780)
Other, net	279	4,526
Total nonoperating (expenses) revenue, net	(252)	23,519
Loss before operating transfers	(172)	(25,196)
Operating transfers from primary government (note 6)	—	21,655
Operating transfers from other funds (note 6)	4,259	—
Operating transfers to other funds (note 6)	(1,058)	—
Operating transfers, net	3,201	21,655
Net income (loss)	3,029	(3,541)
Fund equity at beginning of year as restated (note 14)	17,257	470,523
Equity contributions	—	8,215
Fund equity at end of year	$ 20,286	475,197

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, 2000
(In thousands)

	(Unaudited) primary government proprietary fund type Enterprise	Public benefit corporations	Totals reporting entity (memorandum only)
Cash flows from operating activities:			
Operating income (loss)	$ 80	(48,715)	(48,635)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	959	38,588	39,547
Provision for uncollectible accounts	—	7,177	7,177
Amortization of debt discount	—	372	372
Changes in assets and liabilities:			
Increase in:			
Receivables, net	(187)	—	(187)
Inventories	—	(2,708)	(2,708)
Other assets	(318)	(1,907)	(2,225)
Accounts payable and accrued liabilities	941	13,259	14,200
Customer deposits	—	736	736
Due to other funds	664	—	664
Other liabilities	—	117	117
Decrease in:			
Receivables, net	—	1,092	1,092
Due from other funds	763	—	763
Due from primary government	—	897	897
Deferred revenue	—	(13,381)	(13,381)
Other liabilities	(951)	—	(951)
Total adjustments	1,871	44,242	46,113
Net cash provided by (used in) operating activities	1,951	(4,473)	(2,522)
Cash flows from noncapital financing activities:			
Operating grant received	—	29,735	29,735
Operating transfers from other funds	4,259	—	4,259
Operating transfers to other funds	(1,058)	—	(1,058)
Operating transfers from primary government	—	21,655	21,655
Net cash provided by noncapital financing activities	$ 3,201	51,390	54,591

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, 2000
(In thousands)

	(Unaudited) 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	$ (7,633)	(58,308)	(65,941)
Proceeds from issuance of bonds and notes	7,840	—	7,840
Proceeds from line of credit	—	10,000	10,000
Principal paid on bonds and notes	(2,343)	(7,005)	(9,348)
Interest paid on bonds and notes	(978)	(10,259)	(11,237)
Capital contributions	—	8,215	8,215
Net cash used in capital and related financing activities	(3,114)	(57,357)	(60,471)
Cash flows from investing activities:			
Purchase of investment securities	(3,266)	(3,080)	(6,346)
Proceeds from sales and maturities of investment securities	—	1,541	1,541
Interest and dividends on investments	447	4,193	4,640
Net cash (used in) provided by investing activities	(2,819)	2,654	(165)
Net decrease in cash and cash equivalents	(781)	(7,786)	(8,567)
Cash and cash equivalents at beginning of year as restated (note 14)	2,585	71,008	73,593
Cash and cash equivalents at end of year	$ 1,804	63,222	65,026

See accompanying notes to general purpose financial statements.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Changes in Fund Balances
Public University Funds

Year ended September 30, 2000
(In thousands)

		Current funds		Loan
		Unrestricted	Restricted	funds
Revenue and other additions:				
Unrestricted current funds revenue	$	9,544	—	—
Federal grants and contracts – restricted		—	15,733	—
Primary government grants and contracts		—	384	—
Private gifts, grants and contracts – restricted		—	1,190	—
Interest and dividend income		250	—	18
Expended for plant facilities		—	—	—
Retirement of indebtedness		—	—	—
Other additions		2,693	—	—
Total revenue and other additions		12,487	17,307	18
Expenditures and other deductions:				
Educational and general expenditures		25,803	19,557	—
Auxiliary enterprises expenditures		4,073	—	—
Indirect costs recovered		(814)	814	—
Expended for plant facilities		—	—	—
Retirement of indebtedness – principal		—	—	—
Interest on indebtedness		—	—	—
Other		—	—	75
Total expenditures and other deductions		29,062	20,371	75
Transfers among funds – additions (deductions):				
Operating transfers from primary government		18,890	475	—
Mandatory – restricted funds		(2,037)	2,037	—
Plant funds		—		—
Total transfers among funds		16,853	2,512	—
Net increase (decrease) in fund balances		278	(552)	(57)
Fund balances at beginning of year		2,510	4,762	1,033
Fund balances at end of year	$	2,788	4,210	976

See accompanying notes to general purpose financial statements.

Endowment and similar funds	Plant funds: Unexpended	Plant funds: Retirement of indebtedness	Plant funds: Investment in plant	Totals (memorandum only)
—	—	—	—	9,544
—	3,453	—	—	19,186
—	—	—	—	384
—	—	—	—	1,190
2,580	429	401	—	3,678
—	—	—	5,009	5,009
—	32	—	1,470	1,502
—	—	—	—	2,693
2,580	3,914	401	6,479	43,186
—	—	—	—	45,360
—	—	—	—	4,073
—	—	—	—	—
—	6,707	—	—	6,707
—	—	1,502	—	1,502
—	—	2,089	—	2,089
785	27	53	—	940
785	6,734	3,644	—	60,671
—	—	3,209	—	22,574
—	—	—	—	—
—	(586)	586	—	—
—	(586)	3,795	—	22,574
1,795	(3,406)	552	6,479	5,089
24,212	8,506	5,078	60,495	106,596
26,007	5,100	5,630	66,974	111,685

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

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

Year ended September 30, 2000
(In thousands)

		Current funds		Totals (memorandum only)
		Unrestricted	Restricted	
Revenue:				
Tuition and fees	$	6,581	—	6,581
Federal grants and contracts		727	16,370	17,097
Primary government grants and contracts		7	2,462	2,469
Private gifts, grants, and contracts		1,499	891	2,390
Investment income		250	—	250
Sales and services of auxiliary enterprises		3,007	—	3,007
Other sources		416	173	589
Total current funds revenue		12,487	19,896	32,383
Expenditures and mandatory transfers:				
Educational and general:				
Instruction		7,686	2,174	9,860
Research		373	3,288	3,661
Public service		340	10,052	10,392
Academic support		1,508	836	2,344
Student services		2,249	17	2,266
Operation and maintenance of plant		4,745	774	5,519
Institutional support		7,592	461	8,053
Student aid		496	2,769	3,265
Educational and general expenditures		24,989	20,371	45,360
Mandatory transfers for restricted current fund matching grant		2,037	(2,037)	—
Total educational, general, and mandatory transfers		27,026	18,334	45,360
Auxiliary enterprises expenditures		4,073	—	4,073
Total expenditures and mandatory transfers		31,099	18,334	49,433
Other transfers and additions (deductions):				
Operating transfers from primary government		18,890	475	19,365
Excess of restricted receipts (under) transfers to revenue		—	(2,589)	(2,589)
Total other transfers and additions (deductions)		18,890	(2,114)	16,776
Net increase (decrease) in fund balances	$	278	(552)	(274)

See accompanying notes to general purpose financial statements.

1. Summary of Significant Accounting Policies

The Government of the United States Virgin Islands (the Government) is an unincorporated organized territory of the United States of America (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. All references to financial information pertaining to the proprietary funds contained within the notes to the general purpose financial statements of the Government are unaudited.

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 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
Government Development Bank Building
1050 Norre Gade
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 one representative of the teaching faculty. The University was not organized as a self-sustaining entity and therefore, receives substantial financial and other support from the Government.

(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 and the General Manager of PTS are ex officio members of the board who are not entitled to vote.

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 with the advice and consent of the Legislature. The VIGHHFC is composed of the Governor Roy L. Schneider Hospital located in St. Thomas and the Governor Juan F. Luis Hospital and Medical Center located in St. Croix. Both entities issue separate audited financial statements. The general purpose financial statements do not include the financial information of Roy L. Schneider Hospital as of September 30, 2000 since the data was not readily available.

Virgin Islands Housing Authority

The Virgin Islands Housing Authority (VIHA) was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 903 of June 18, 1962 with the purpose of providing housing for low-income families. The powers of VIHA are exercised by the board of commissioners consisting of seven commissioners as follow: the Commissioner of Housing and Community Renewal and six 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
Virgin Islands Housing Authority 42 Annas Retreat St. Thomas, V.I. 00802	

All financial statements of the discretely presented component units have a year-end of September 30, 2000, except for the Virgin Islands Water and Power Authority, and the Virgin Islands Housing Authority that have a year-end of June 30, 2000 and December 31, 1999, respectively.

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 PG and its component units. Individual funds of the PG 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.

(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 account 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 PG. 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.
- *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 is, 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 arises when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises 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 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 PG and most blended component units have elected not to follow FASB pronouncements issued subsequent to November 30, 1989 for its proprietary fund types. VIPA 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 GASB and FASB, as applicable to each component unit based on the nature of their operations.

D. Statutory (Budgetary) Accounting

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

(Continued)

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 represents 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 PG, 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 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 PG and other component units that arise from service charges do not have significant allowances for uncollectible accounts.

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 PG, 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.

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.

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 5,343 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. The Government recognizes such expenditures upon payment. During the year ended September 30, 2000 the cost of providing health care benefits premiums amounted to approximately $6.6 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 is limited to 480 hours (60 days). However in excess of 480 hours are considered by GERS 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 including related benefits, is presented in the general long-term debt account group because it will not be funded with available expendable financial resources at September 30, 2000.

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 PG and its component units, and among the component units. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type. Similarly, receivables and payables between the PG and its blended component units are reported as amounts due to and due from other funds. Balances and transfers between the PG 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.

(Continued)

- *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 are part of the 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.

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 hurricanes 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
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
37	Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB No. 21 and No. 24	2002
38	Certain Financial Statement Note Disclosures	2002

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 2000 general purpose financial statements.

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 (Governor Juan F. Luis Hospital and Medical Center-Only)
- Virgin Islands Housing Authority

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, 2000 since the data was not readily available.

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

			Virgin Islands Water and Power Authority			
Balance sheet	**Virgin Islands Housing Authority**	**Virgin Islands Port Authority**	**Electric system**	**Water system**	**Other entities**	**Total public benefit corporations**
Assets						
Current assets	$ 25,813	35,044	53,760	20,325	13,609	148,551
Due from PG	—	2,220	—	—	1,839	4,059
Due from federal government	8,074	1,351	—	—	691	10,116
Restricted assets	6,449	7,594	18,477	8,399	—	40,919
Fixed assets, net	80,078	209,803	149,378	51,651	35,123	526,033
Other noncurrent assets	4	308	2,352	1,078	38	3,780
Total	$ 120,418	256,320	223,967	81,453	51,300	733,458
Liabilities and Fund Equity						
Current liabilities	$ 16,534	7,560	48,480	8,188	6,194	86,956
Due to PG	—	1,265	—	3,462	—	4,727
Due to federal government	257	—	5,300	—	—	5,557
Bonds payable	—	17,419	102,416	40,433	—	160,268
Note payable	753	—	—	—	—	753
Total liabilities	17,544	26,244	156,196	52,083	6,194	258,261
Fund equity	102,874	230,076	67,771	29,370	45,106	475,197
Total	$ 120,418	256,320	223,967	81,453	51,300	733,458

(Continued)

Statement of operations	Virgin Islands Housing Authority	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	$ 5,291	39,177	98,854	28,773	33,858	205,953
Operating expenses	(46,566)	(35,486)	(89,709)	(23,939)	(58,968)	(254,668)
Operating income (loss)	(41,275)	3,691	9,145	4,834	(25,110)	(48,715)
Nonoperating revenue (expenses), net	26,114	95	(5,092)	(2,153)	4,555	23,519
Income (loss) before operating transfers	(15,161)	3,786	4,053	2,681	(20,555)	(25,196)
Operating transfers from PG	600	—	—	—	21,055	21,655
Net income (loss)	(14,561)	3,786	4,053	2,681	500	(3,541)
Fund equity at beginning of year (as restated)	117,435	218,625	63,317	26,540	44,606	470,523
Equity contributions, net	—	7,665	401	149	—	8,215
Fund equity at end of year	$ 102,874	230,076	67,771	29,370	45,106	475,197

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 2001-2002.

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, 2000 is presented below (expressed in thousands):

Excess of revenue and other financing sources over expenditures and other financing uses – non-GAAP budgetary basis	$	255,286
Timing difference – change in encumbrances		12,785
Entity difference – excess of expenditures and other financing uses over revenue and other financing sources – activities with budgets not legally adopted		(12,624)
Excess of revenue and other financing sources over expenditures and other financing uses – GAAP basis	$	255,447

C. *Deficit Fund Equity*

In addition to the general fund, as of September 30, 2000, fund deficits exceeding 10% 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	$	11,879
Job Training and Partnership Act	$	8,380
Capital project fund:		
Vocational School Building Fund	$	11,566
Enterprise funds:		
Public Transit Fund	$	8,987
Reciprocal Insurance Fund	$	8,894

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, 2000 the PG 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, the 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, 2000, the PG 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, PG 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 PG and its discretely presented component units by risk category at September 30, 2000 were as follows (expressed in thousands):

Primary Government

	Category 1	Category 2	Category 3	Reported amount
U.S. government and agency securities	$ 316,792	—	—	316,792
Common stock – U.S.	432,208	—	—	432,208
Common stock – foreign	76,855	—	—	76,855
Corporate bonds – U.S.	79,173	—	—	79,173
Corporate bonds – foreign	76,989	—	—	76,989
Certificates of deposit	73,774	—	—	73,774
Collateralized mortgage obligations	41,356	—	—	41,356
Money market fund	107,131	—	—	107,131
	$ 1,204,278	—	—	1,204,278
Balance carried forward				$ 1,204,278

(Continued)

	Category 1	Category 2	Category 3	Reported amount
Balance brought forward				$ 1,204,278
Investments not categorized:				
Investments held by broker – dealers under security loans:				
U.S. government and agency securities				118,516
Corporate bonds – U.S.				1,766
Common stock – U.S.				26,132
Common stock – foreign				13,572
Securities lending short term collateral investment pool				4,748
Mutual funds				155,343
Pooled investments				142,533
Real estate				33,000
Total investments				$ 1,699,888

Public University Funds

	Category 1	Category 2	Category 3	Reported amount
U.S. government and agency securities	$ 2,238	—	—	2,238
Common stock	1,939	—	—	1,939
Corporate bonds	429	—	—	429
Mortgage-backed securities	2,413	—	—	2,413
	$ 7,019	—	—	7,019
Investments not subject to categorization – mutual funds				15,938
Total investments				$ 22,957

(Continued)

Public Benefit Corporations

		Category			Reported
		1	2	3	amount
U.S. government and agency securities	$	2,951	—	—	2,951
Certificates of deposit		5,750	—	—	5,750
Money market accounts		11,610	—	—	11,610
Investment in contract		2,342	—	—	2,342
Pooled investments		5,449	—	—	5,449
Total investments	$	28,102	—	—	28,102

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 $37.7 million. During the year ended September 30, 2000, GERS' 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	$	12,032
Corporate bonds – U.S.		(26,047)
Corporate bonds – foreign		(8,640)
Common stock – U.S.		60,298
Common stock – foreign		6,364
Collateralized debt obligations		3,018
Mutual funds		12,857
Net appreciation of fair value of investments	$	59,882

GERS participates in a securities lending program originally administered by The Chase Manhattan Bank, N.A. (the Custodian) and presently by State Street Bank and Trust. Loans are generally terminable on demand. The system may be exposed to off-balance sheet risk in the event a borrower is unable to meet its contractual obligation. The Custodian maintains collateral at a minimum of 102% of the market value of the security for domestic borrowers and 105% for foreign borrowers. The securities are marked-to-market, and settlements are made with the borrowers on a daily basis by the Custodian. At September 30, 2000 approximately $160 million of securities were on loan.

5. Receivables

Tax receivables at September 30, 2000 consist of the following (expressed in thousands):

Income	$	4,651
Real property		40,877
Gross receipts		4,174
	$	49,702

The Naval Appropriations Act of 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 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.

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% 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.

(Continued)

Loans and advances receivable at September 30, 2000 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	$ 9,637	31,083	—	—
Personal loans	—	70,356	—	—
Student loans	—	—	702	—
Other loans and advances	962	1,314	—	3,558
	10,599	102,753	702	3,558
Less allowance for uncollectible accounts	(80)	(3,000)	(168)	—
Loans and advances, net	$ 10,519	99,753	534	3,558

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 most significant transfers from the general fund to other funds include $21.7 million transferred to the Bond Proceeds Fund (capital project fund), $5.6 million transferred to the Youth Education Endowment Fund (expendable trust fund), $3.6 million transferred to the Emergency Molasses Fund (special revenue fund), and $1.2 million transferred to the Public Transportation Fund (enterprise fund). Operating transfers from other funds to the General Fund consist primarily of $56.8 million transferred from the debt service fund, $8 million transferred from the Hess Oil Endowment Fund (expendable trust fund), $3 million transferred from the Caribbean Basin Initiative Fund (capital project fund), $3 million transferred from the Asset Recovery Fund (expendable trust fund), $1.5 million transferred from the Bond Proceeds Fund (capital project fund), and $1 million transferred from the West Indian Company (enterprise fund).

Operating transfers from other funds to the special revenue fund not mentioned above consisted of $150 thousand transferred to the Claims Fund from the general fund. Transfers out from the special revenue fund include $1 million transferred to the Government Insurance Fund (enterprise fund). Operating transfers from other funds to the debt service fund include $201 thousand transferred from the Caribbean Basin Fund (capital project fund). Operating transfers from the debt service fund to other funds not mentioned above include $385 thousand transferred to the general fund.

Each year the general fund appropriates funds to certain component units to subsidize operations. The most significant transfers made to component units include $21.8 million transferred to the University (public university fund) and $19 million transferred to the Virgin Islands Government Hospital and Health Facilities Corporation, a discretely presented component unit.

B. *Due From/To Other Funds*

The following table summarizes the due from/to at September 30, 2000 (expressed in thousands):

		Primary government	Public university funds	Public benefit corporations	Total
Due from:					
Other funds	$	55,340	—	—	55,340
Primary government		—	2,830	4,059	6,889
Public benefit corporations		4,727	—	—	4,727
Total	$	60,067	2,830	4,059	66,956
Due to:					
Other funds	$	55,340	—	—	55,340
Primary government		—	—	4,727	4,727
Public university funds		2,830	—	—	2,830
Public benefit corporations		4,059	—	—	4,059
Total	$	62,229	—	4,727	66,956

The most significant due from/to other funds include the amounts of $21.7 million, $2.8 million, and $2.6 million from the general fund to the Bond Proceeds Fund (capital project fund), the Property Tax Increment Fund (special revenue fund), and the Emergency Molasses Fund (special revenue fund), respectively. Due from/to balances include $2.7 million and $1.7 million due from the Bond Proceeds Fund (capital project fund) and the Caribbean Basin Initiative Fund (capital projects 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 GERS, blended component unit, pursuant to the Early Retirement Act of 1994 and $3.8 million from the Virgin Islands Lottery, blended component unit, consisting primarily of 8% of the total lottery revenue that is 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.

(Continued)

The due to PG balance is primarily composed of $3.5 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 PG 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, 2000 the balance due to the Government was approximately $3.5 million.

In addition, another balance composing the due to PG 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, 2000 is still pending.

The due from PG balance is primarily composed of $2.2 million due to VIPA, a discretely presented component unit, and $2.8 million due to the University, public university fund, and $58 thousand due to the PTS, a discretely presented component unit.

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.

7. Restricted Assets

A. Primary Government

Restricted assets of the PG 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	$	1,635
Endowment and similar funds		26,007
Plant funds – retirement of indebtedness		3,165
Total	$	30,807

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	$	12,037
Construction funds		9,937
HUD project funds		6,449
Other		1,754
Total cash and cash equivalents		30,177
Investments		
Debt service and sinking fund requirements		9,261
Construction funds		712
Renewal and replacements funds		769
Total investments		10,742
Total restricted assets of public benefit corporations	$	40,919

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, 2000 are as follows (expressed in thousands):

Land	$	5,521
Buildings		21,908
Equipment		2,263
Construction in progress		8,865
Total		38,557
Less accumulated depreciation		5,590
Fixed assets, net	$	32,967

The fixed assets of the pension trust fund as of September 30, 2000 are summarized as follows (expressed in thousands):

Land	$	2,752
Buildings and improvements		10,275
Total		13,027
Less accumulated depreciation and amortization		848
Fixed assets, net	$	12,179

B. Discretely Presented Component Units

Fixed assets for the discretely presented component units as of September 30, 2000 are as follows (expressed in thousands):

		Public university funds	Public benefit corporations
Land	$	2,980	20,263
Buildings and improvements		50,740	625,932
Airport and marine terminal facilities		—	256,929
Equipment		20,540	36,678
Construction in progress		8,223	83,202
Other assets		3,763	52,380
Total		86,246	1,075,384
Less accumulated depreciation and amortization		—	549,351
Fixed assets, net	$	86,246	526,033

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 the general long-term debt account group for the year ended September 30, 2000 (expressed in thousands):

	Balance at October 1, 1999	Debt issued	Debt paid	Forgiveness	Increase (decrease)	Balance at September 30, 2000
Bonds payable	$ 564,605	299,880	12,550	—	—	851,935
Notes payable	163,506	—	195	29,086	—	134,225
Tax and revenue anticipation notes	35,000	—	35,000	—	—	—
Other long-term liabilities	309,005	—	—	—	67,929	376,934

(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% 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 amendment of the V.I. Code Title II Section 2568 enactment 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. Debt means the total accumulated unpaid obligations that are due and payable including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. It

(Continued)

will not include that portion of principal or interest on bonds that is not yet due and payable. 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. This Act will be effective for the fiscal year commencing October 1, 2001.

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.

(2) Bonds Payable

Bonds payable outstanding at September 30, 2000 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%	$	522,525
1999 Project Revenue Bonds, due 2005 interest at 6.25%		12,375
1999 Series A General Obligation Bonds – due 2007 and 2010 interest at 6.50%		17,155
1999 Series A Revenue Bonds, due 2000 to 2029, interest at 4.20% to 6.40%		299,880
Bonds payable as of September 30, 2000	$	851,935

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, 2000 $232 million of the above-mentioned defeased bonds were outstanding.

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, 2000 $182 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 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 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. The Government has pledged the matching fund revenue, as described above, 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.

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. Prepayments of matching fund are recorded as a deferred revenue in the accompanying combined balance sheet all fund types, account group and discretely presented component units and reversed against revenue in the following year. The adjustments for actual collections made to the estimated prepayments are recorded in the year determined.

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.

Interest on the revenue and refunding bonds series 1998 A, B, C, D, and E and 1999 bonds are 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 and 1999 Series bonds. The principal due on October 1 and interest payments due on October 1 and April 1 are funded by the matching fund revenue and deposited into the debt service reserve accounts.

On April 13, 1999 a loan agreement was made between and among the Government, the Virgin Islands 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 certain costs of compliance by the Government with Year 2000 computer systems issues. The loan was evidenced by the Government's issuance of General Obligation

(Continued)

Bonds Series 1999A amounting to $18 million. Principal and interest is payable semiannually on January 1 and July 1.

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 (the Refinery) which revenue is 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 Refinery agreed to pay $12 million annually of real property taxes on the refinery properties. Foreign sales corporations qualified to do business in the Virgin Islands must pay a franchise tax of $1.50 for each thousand dollars of capital stock issued (Franchise Tax).

On April 13, 1999 PFA also 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.

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

The Government pledged gross receipts taxes for fund deposit for the timely payment of the principal and interest on the 1999 Series Bonds. Interest on the 1999 Series A Bonds is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. The principal and interest payments on October 1 and the April 1 interest payment are determined and deposited into the debt service reserve accounts, which is funded by gross receipt taxes.

As of September 30, 2000 debt service requirements for bonds outstanding are as follows (expressed in thousands):

		Principal	Interest	Total
Year:				
2001	$	19,025	47,577	66,602
2002		20,445	48,026	68,471
2003		21,630	46,835	68,465
2004		22,870	45,602	68,472
2005		22,560	44,311	66,871
Thereafter		745,405	562,824	1,308,229
	$	851,935	795,175	1,647,110

(3) Notes Payable

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 CDLs 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 CDLs, by their 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%. 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. As of September 30, 2000 the Government met all necessary requirements to request the debt cancellation. In December 2001, the U.S. Department of Interior notified the Government that the U.S. Congress appropriated the funding required for the forgiveness of all remaining payment obligations on the 1990 CDL. As a result, the Government has eliminated the $29 million forgiven balance from its books.

The 1996 CDL accrues interest at the annual rate of 6.35% 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, 2000 amounted to $127 million.

In addition to the 1990 and 1996 CDLs, 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% with final maturity on August 2002. At September 30, 2000 the outstanding principal balance of this loan amounted to approximately $7 million.

In May 1999, the Government was granted a deferral on 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.

As of September 30, 2000, debt service requirements for notes payable outstanding are as follows (expressed in thousands):

	Principal	Interest	Total
Year:			
2001	$ 2,547	11,683	14,230
2002	4,477	21,600	26,077
2003	397	20,984	21,381
2004	13,651	7,730	21,381
2005	14,540	6,841	21,381
Thereafter	98,613	18,981	117,594
	$ 134,225	87,819	222,044

(Continued)

B. Discretely Presented Component Units

(1) Public University Funds

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

	Final maturity	Interest rates	Balance
Note payable, secured by the PG	2024	5.5%	$ 1,973
Unsecured notes payable	2001	6.49% to 6.67%	446
Total			$ 2,419

At September 30, 2000 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, 2000 the amount outstanding was $2 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%. 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% and is to be repaid in monthly principal and interest installments of approximately $24 thousand through July 1, 2001. As of September 30, 2000 the outstanding principal balance was $206 thousand. The second note payable bears interest at 6.49% and is repaid in monthly installments, including interest, of approximately $30 thousand through June 1, 2001. As of September 30, 2000 the outstanding principal balance was $240 thousand.

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

	Amount
Year ending September 30:	
2001	$ 459
2002	45
2003	48
2004	50
2005	50
Thereafter	1,767
Total	$ 2,419

(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 1995	2002	6.12% to 7.82%	$	1,866
General obligation bonds of 1999	2029	6.50% to 7.75%		25,000
Various building bonds	2004	3.00% to 7.50%		702
Sub total				27,568
Less: unamortized discount				469
Bond payable, net			$	27,099

The University issued the General Obligation Bonds of 1994 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 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% 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.

During fiscal year 2000, the University issued the 1999 Series A Bonds. The University issued these bonds to finance a portion of the construction, furnishing and equipping of various facilities of the University, to refund $14 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 cost issued under and secured by an indenture of trust dated as of December 1, 1999 between the University and the trustee. The 1999 Series A Bonds maturing on or after December 1, 2010 are subject to redemption prior to maturity at the option of the University, as a whole or in part of any date, on and after December 1, 2009 at the redemption prices ranging between 100% and 102% of their principal amount, plus accrued interest to the date fixed for redemption.

The various building bonds payable as of September 30, 2000 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.

Future amounts required to pay principal and interest on University System Bonds at September 30, 2000 are as follows (expressed in thousands):

		Principal	Interest	Total
Year ending September 30:				
2001	$	1,526	1,612	3,138
2002		1,560	1,524	3,084
2003		774	1,428	2,202
2004		402	1,405	1,807
2005		402	1,405	1,807
Thereafter		22,904	21,713	44,617
Total	$	27,568	29,087	56,655

(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 and note payable outstanding at September 30, 2000 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%	$	107,770
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%		17,701
Subtotal				169,661
Plus: unamortized premium				244
Less: deferred amount on debt refunding and reacquisition costs				9,637
Bonds payable, net			$	160,268

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 $107.8 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, 2000 $63 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 is being 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 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 which expired July 2, 2001 was renewed thereafter.

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% of aggregate annual principal and interest. The Electric System is net electric revenue for the fiscal year ended June 30, 2000 was 193% 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% in 2008, 100.5% in 2009 and 100%, 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% 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 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 is being 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, the Water System has conveyed to the bond trustee, a subordinate lien and security interest in the Water System's General Fund. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The 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% of aggregate annual principal and interest payments. The Water System's net water revenue for the year ended June 30, 2000 was 195% 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% during July 1, 2009 through June 30, 2010 and 100%, thereafter.

On October 28, 1998 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 is pledged for payment of the Rohlsen Terminal Bonds if revenue from the Rohlsen Terminal is 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) do not under any circumstances constitute general obligations of VIPA, the Aviation or Marine Division, the Government, or the United States, neither are the Bonds be evidence of a debt of the Government nor the United States. The revenue of the Airport System is 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 is not available to pay the principal or interest of the Airport Revenue Bonds except for any surplus of marine revenue which is 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% 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; and (iv) the amount of the Capital Improvements Appropriations for such period. For fiscal year 2000, VIPA met all the requirements described above.

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 is the Airport System revenue to 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.

(Continued)

Fixed maturities required to pay principal and interest on public benefit corporations' bonds payable with fixed maturities at September 30, 2000 are as follows (expressed in thousands):

		Bonds payable		
		Principal	Interest	Total
Year ending September 30:				
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
2005		10,061	6,391	16,452
Thereafter		123,320	57,287	180,607
Total	$	169,661	95,921	265,582

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 $286 million accruing from fiscal years 1993 through 2000. 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, 2000 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, 2000 amounted to approximately $21.9 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, 2000 based on an evaluation of pending disallowances, the Government has recorded approximately $23.7 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 has agreed with representatives of the federal granting agencies to apply 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 $8.2 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, 2000.

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

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 are intended, 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 (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; and (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, 2000 $54 million of the proceeds of the Series 1998 E Bonds remained unexpended.

At September 30, 2000 the Government has applied for funding of certain additional capital projects with the U.S. government. 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 $44.1 million during fiscal year 2001. 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, 2000 WAPA has recorded a liability of $5.3 million for amounts owed to FEMA for overpayments related to these questioned costs. 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

(Continued)

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 damages 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 opinion, 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, 2000. Interest on amounts borrowed is payable quarterly at a variable interest rate of either prime plus 1% LIBOR plus 1.5% or 150 basis points above the interest rate on three-year U.S. government treasury notes. WAPA has the option to select the variable interest rate to utilize. At June 30, 2000 the weighted average interest rate was 8%. At June 30, 2000 there was $10 million outstanding under the lines of credit for the Electric and Water Systems, respectively, and $10 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 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 PG. 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, 2000 was 14.5% of the member's annual salary. Since April 1, 1991 required member contributions are 8% of annual salary for regular employees, 9% for senators, and 10% for Act 5226 eligible employees. Member contributions are refundable without interest upon withdrawal from employment before retirement. Subsequent to September 30, 2000 legislation was passed that provided for 4% annual interest on refunded contribution. The Government's contributions to the plan for the years ended September 30, 2000, 1999, and 1998, amounted to $44 million, $45.1 million, and $45.9 million, respectively, that represented 67.82%, 72.54%, and 73.48%, 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 4 percentage points.

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

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the three years used to compute the employee's "average compensation" figure, plus a sum of $5 thousand. Based on the calculation, this amount was approximately $1.9 million. As of September 30, 2000 GERS has received $236 thousand of such 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 will 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. On December 14, 1999 the parties involved arrived at a settlement, which was approved by the court. Unpaid damages associated with this suit as of September 30, 2000 have been estimated at approximately $950 thousand, including attorneys fees, which have been substantially accrued within other liabilities in the accompanying statement of plan net assets.

The following presentation displays the statement of plan net assets for GERS as of September 30, 2000 (amounts in thousands):

Assets	
Investments:	
Marketable securities:	
U.S. government and government-guaranteed obligations	$ 316,792
Corporate obligations	79,173
Foreign bonds	76,989
Common stock – U.S.	432,208
Common stock – foreign	76,855
Collateralized debt obligations	4,879
Mutual funds	155,343
	1,142,239
Member loans:	
Mortgage	31,083
Personal and auto	71,670
Less allowance for losses	(3,000)
	99,753
Real estate	45,179
Invested securities lending collateral	164,734
Cash and cash equivalents	43,492
Unsettled securities sold	12,078
Other assets	4,945
	1,512,420
Liabilities	
Securities lending collateral	164,734
Unsettled securities purchased	12,482
Accounts payable and accrued expenses	5,114
	182,330
Plan net assets held in trust for pension benefits	$ 1,330,090

In addition to GERS, all eligible employees of the University 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, 2000 approximately 198 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 is 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% 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 consists 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 an interest rate of 5.75% payable

(Continued)

in monthly installments of $127 thousand, 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 is pledged for the payment of principal and interest on the loan. During fiscal year 2000 WICO received $8 million in construction funds. The debt will be restructured at the end of the construction phase. Future minimum payments of principal are as follows (expressed in thousands):

		Principal
Year:		
2001	$	868
2002		968
2003		1,028
2004		1,093
2005		1,161
Thereafter		15,229
Total	$	20,347

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	$	14,257	7,717	9,432	9,572	40,978
Operating expenses		15,856	6,434	6,237	12,371	40,898
Operating income (loss)		(1,599)	1,283	3,195	(2,799)	80
Operating transfers to other funds, net		—	3,029	(1,000)	1,172	3,201
Others		300	—	(552)	—	(252)
Net income (loss)	$	(1,299)	4,312	1,643	(1,627)	3,029
Current assets	$	1,967	5,372	8,926	4,427	20,692
Current liabilities		6,126	2,035	1,353	1,409	10,923
Net working capital (deficiency)		(4,159)	3,337	7,573	3,018	9,769
Other assets		143	66	31,733	3,250	35,192
Other liabilities		—	214	20,347	4,114	24,675
Fund equity (deficit)	$	(4,016)	3,189	18,959	2,154	20,286

13. Liquidity

At September 30, 2000 the Government had a general fund unreserved deficit amounting to $82 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. 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 is 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. The Government is discussing with DOI certain events of noncompliance, remedial action necessary to comply with the provisions of the MOU and its effect on the Government's financial condition and results of operations.

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.

(Continued)

14. Restatements

The beginning fund equity for the year ended September 30, 2000 of the discretely presented public benefit corporations has been restated to reflect the inclusion of audited financial information of VIHA and the Governor Juan F. Luis Hospital and Medical Center.

The following table summarizes the restatements of the beginning fund equity for the year ended September 30, 2000 (expressed in thousands):

		Public benefit corporations
Fund equity, as previously reported – September 30, 1999	$	344,956
Restatement to reflect the inclusion of VIHA		117,435
Restatement to correct beginning fund equity of Governor Juan F. Luis Hospital		8,132
Beginning fund equity, as restated – September 30, 1999	$	470,523

15. Subsequent Events

Primary Government

In October 2000, the U.S. 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 Islands pays a franchise tax of $1.50 for each thousand dollars of capital stock issued. FSCs 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% of their gross annual salary to unclassified employees and 20% to classified employees, payable within 45 days of the member voluntary separation. In addition, employees with 28 years 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 years and 30 years of credited service elected this option the total cost for GERS would amount to $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 will be funded through contributions from WICO ($1 million), WAPA ($1 million), VIPA ($4 million), and the V.I. Insurance Guaranty Fund ($5 million).

In November 2000, GERS filed a lawsuit 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.

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 is governed by a board consisting of seven members appointed by the Governor with the advice and consent of the Legislature. The purpose was to create an umbrella authority to assume, integrate, and unify the functions of the GDB, the Industrial Development Commission, the VIIPDC, and the Small Business Development Agency under one executive board. This unification was designed 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) the V.I. Code was amended making it optional for members of the judiciary to join the Government's pension plan; (iii) 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; (iv) authorized the Governor to approve a contract for the design, development, construction, operation, and financing of a Solid Waste and Resource Recovery Facilities; and (v) established the Virgin Island's Tax Study Commission, composed of seven members that will analyze and study Virgin Islands 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 April 2001, the Government established the U.S. Virgin Islands Military Museum and Veterans Memorial Foundation (the Foundation), an autonomous not-for-profit organization created upon issuance of Act No. 6393. The Foundation was formed in order to memorialize and promote the heroic deeds of the Virgin Islands War Veterans with the purpose of constructing and operating a complex for the promotion of public awareness of the important service provided by the Virgin Islanders serving in the U.S. Armed Forces. The powers of the Foundation will be exercised by a board of nine directors, five of which are appointed by the Governor.

(Continued)

In July 2001, the Government established the Caribbean Cultural Heritage Center and Discovery Park Corporation (the Corporation), an autonomous not-for-profit organization created upon the issuance of Act No. 6424. The Corporation was formed in order to stimulate economic activity, job creation, and tourism in the community with the purposes of acquiring, operating, and renovating convention facilities, parking facilities, cultural entertainment, or other historical renovations. The powers of the Corporation will be exercised by a board of five directors appointed by the Governor with the advice and consent of the Legislature.

Upon issuance of Act No. 6428 in August 2001, the Government established the Tobacco Settlement Financing Corporation (the Corporation), a governmental entity. The Corporation was formed for the purpose of funding health care projects described in Title 22, Chapter 111, Section 3100b(c) of the V.I. Code through the issuance of bonds secured by the payments from participating manufacturers under the Master Settlement Agreement (the Agreement) between the U.S. tobacco product manufacturers and various states and other U.S. jurisdictions. The Government sold their rights, title, and interest in certain amounts payable under the Agreement in settlement of certain smoking related litigation, including the Government's right to receive future initial, annual, and strategic contribution fund payments to be made by the Tobacco products manufacturers under the Agreement in exchange for the net proceeds of the Tobacco Settlement Financing Corporation Tobacco Settlement Asset Backed Bonds, Series 2001 amounting to $21.7 million issued in November 2001. The powers of the Corporation will be exercised by a board of directors consisting of three members comprised of the Governor, one private citizen appointed by the Governor, and another private citizen appointed by the Legislature.