PRICEWATERHOUSECOOPERS

Virgin Islands Public Finance Authority

(a blended component of the Government of the United States Virgin Islands)

Management Discussion and Analysis, Basic Financial Statements and Supplementary Information

September 30, 2003 and 2002

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
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September 30, 2003 and 2002

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PRICEWATERHOUSECOOPERS

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Report of Independent Auditors

To the Board of Directors of
The Virgin Islands Public Finance Authority

In our opinion, the accompanying statement of net assets and the related statements of revenues, expenses and changes in net assets, and of cash flows present fairly, in all material respects, the financial position of The Virgin Islands Public Finance Authority (a blended component of The Government of the Virgin Islands) (the "Authority") at September 30, 2003 and 2002 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the Authority implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of September 30, 2003 and 2002.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Condensed Information Schedules on pages 32 and 33, as of September 30, 2003 and for the year ended September 30, 2003 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

May 31, 2004

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2004
Stamp 1986102 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

The Management and Board of Directors of the Virgin Islands Public Finance Authority (the "Authority") are pleased to present the following discussion and analysis of the Authority's financial performance for the fiscal years ended September 30, 2003 and 2002.

Please read this information in conjunction with the Authority's financial statements, which begin on page 7.

FINANCIAL HIGHLIGHTS

At September 30, 2003, the total assets of the Authority amounted to $1.152 billion, of which $40 million were capital assets (2002 - $1.010 billion of which $33.9 million were capital assets). Total liabilities amounted to $1.093 billion of which $902.3 million represent bonds and loans outstanding, and $190.7 million represent other liabilities (2002 - $949.6 million of which $802.5 million were for bonds and loans outstanding, and $147.1 million were for other liabilities) . The total assets of the Authority exceeded its liabilities as of September 30, 2003 by $59 million (net assets) (2002 - $60.8 million). Unrestricted net assets amounted to $8.1 million (2002 - $6.8 million), net assets invested in capital assets, net of related debt amounted to $18 million (2002 - $13.7 million), and net assets restricted to debt and investment purposes amounted to $32.9 million (2002- $40.3 million).

During the fiscal year, operating income amounted to $2.0 million (2002 - $1.3 million). In addition, the Authority received principal and interest payments on loans to the Government of the Virgin Islands of $22.7 million (2002 - $19.5 million) and $46.3 million (2002 - $46.5 million), respectively. The Authority made debt service principal and interest payments on bonds of $22.7 million (2002 - $19.5 million) and $46.3 million (2002 - $46.5 million). The Authority made payments on behalf of the Government of the Virgin Islands during fiscal year 2003, from restricted investments amounting to $4 million (2002 - $14.4 million).

The Authority's net assets decreased in each of the past two years by $1.9 million or 1.7% in 2003 and $11.4 million or 15.8% in 2002.

The activities of the West Indian Company ("WICO") port facility resulted in an increase in net assets of $894 thousand (2002 - $244 thousand). WICO made a dividend payment to the Authority of $800,000 in fiscal year 2002.

The activities of the King's Alley Management, Inc. hotel facility resulted in a decrease in 2002 of $689 thousand, and a $2 million increase in 2002.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, and Notes to the Financial Statements presented on pages 9 through 33 provide information about the activities of the Authority as a whole.

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

The Condensed Information presented on pages 29 and 30 provide detailed information of the activities of the Authority.

All financial statements have been presented using the accrual basis of accounting.

ACTIVITIES OF THE AUTHORITY

The Authority engages only in business-type activities. The Authority is a finance authority which aids the Government of the Virgin Islands in the performance of its fiscal duties, and in raising capital for essential public projects. Upon issuance of bonds, the Authority manages debt service reserves, receives pledged revenues and invests unused bond proceeds. In addition, the Authority has oversight of two commercial complexes.

The net assets of the Authority decreased by $1.9 million during fiscal year 2003 (2002 – decrease of $11.4 million). This decrease in both years was due to (i) payments to the Government of the Virgin Islands of investment income earned in prior years which have been reprogrammed by the Legislature for capital projects; and (ii) a reduction in returns from investments on US Treasury Bonds and Notes and 3) losses from the King's Alley hotel operation.

Non-current assets, excluding capital assets, increased from $937.5 million to $968 million in 2003 (decreased from $975.0 million in 2001 to $937.5 million in 2002). The increase was due to an increase in investments from additional loans, and bonds floated by the Authority in 2003. The decrease in 2002 was mainly due to a reduction in the long-term portion of notes receivable from the Government of the Virgin Islands amounting to $19.5 million, payments made on behalf of the Government of $14.4 million and the release of bond proceeds for restricted purposes of $5.3 million.

Current assets increased by $105 million ($5.4 million in 2002) from the prior year due to an increase in the current portion of the Loan receivable from the Government of the Virgin Islands scheduled to be collected during fiscal year 2004. Capital assets increased due to capital improvements at the authority's two commercial complexes.

Non-current liabilities increased mainly due to an increase in loans payable related to capital assets and amounts due to the Government for capital projects and working capital.

Operating revenues in 2003 experienced an increase in the investment and bond management fees charged to the Government of the Virgin Islands by approximately $1.8 million which were partially offset by a decrease in King's Alley revenues (please refer to the Commercial complexes section on this MD&A for discussion on WICO and King's Alley). Operating expenses increased mainly due to an increase in the operating expenses of the Authority.

Following is condensed financial information of the business type activities of the Authority as of September 30,

(in thousands)	2003	2002	2001
Condensed information from Statement of Net Assets			
Current assets	$ 143,712	$ 38,989	$ 32,471
Non-current assets excluding capital assets	968,377	937,529	975,088
Capital assets (net of depreciation)	39,973	33,938	31,071
Total assets	$ 1,152,062	$ 1,010,456	$ 1,038,630
Current liabilities	128,745	24,385	22,982
Long-term portion of bonds outstanding	755,750	761,590	802,454
Other Liabilities	208,608	163,655	140,922
Total liabilities	1,093,103	949,630	966,358
Net Assets			
Invested in capital assets, net of debt	17,958	13,722	9,791
Restricted	32,918	40,341	58,819
Unrestricted	8,083	6,763	3,662
Total net assets	$ 58,959	$ 60,826	$ 72,272
Condensed information from Statement of Revenue, Expenses and Changes in Net Assets			
Operating revenues	$ 14,806	$ 13,198	$ 12,922
Operating expenses	(12,838)	(11,879)	(9,779)
Operating income	1,968	1,319	3,143
Non-operating (expenses) income and other changes in net assets	(3,836)	(12,764)	5,871
Change in net assets	$ (1,868)	$ (11,445)	$ 9,014

Investment Management Activities

During the current year, the Authority (i) managed the assets of four outstanding bond series, (ii) managed the assets of three defeased bond series, and (iii) managed the assets of a short term bond anticipation note.

Investments under management for fiscal years 2003, 2002 and 2001 were as follows:

	Restricted and Pooled Investments (in thousands)		
	2003	2002	2001
Outstanding bond series	$ 168,962	$ 123,809	$ 133,133
Defeased bond series	22,606	25,926	21,418
Depository Trust	-	11,979	13,932
Investments under management	$ 191,568	$ 161,714	$ 168,483

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

	WICO			King's Alley		
	2003	2002	2001	2003	2002	2001
Operating Revenues	$ 9,949,937	$ 9,995,454	$ 10,801,404	$ 1,038,906	$ 1,119,547	$ 318,863
Operating Expenses	(7,392,533)	(7,354,222)	(6,807,638)	(1,738,120)	(1,674,172)	(267,847)
Operating Income (Loss)	2,557,404	2,641,232	3,993,766	(699,214)	(554,625)	51,016
Nonoperating Revenues	375,536	220,016	457,864	10,329	15	
Nonoperating Expenses	(2,039,385)	(2,617,082)	(3,414,057)		2,593,729	
Nonoperating Revenue (expenses)	(1,663,849)	(2,397,066)	(2,956,193)	10,329	2,593,744	-
Change in Net Assets	$ 893,555	$ 244,166	$ 1,037,573	$ (688,885)	$ 2,039,119	$ 51,016

WICO operates a cruise ship port and shopping mall on the island of St. Thomas. Operating revenues consist of agency fees charged to cruise lines and rental income. Operating income for WICO increased during fiscal year 2003 compared to fiscal year 2002 due to a reduction in operating expenses and decreased during fiscal year 2002 compared to fiscal year 2001 due to a) the effects of decreased tourist activity after September 11, 2001 reflected in a 6% reduction in passenger arrivals during 2002 and b) a reduction in approximately 15% in agency fees and charges to cruise lines, based on requests made by the cruise lines.

King's Alley is a hotel and shopping complex in Christiansted, St. Croix. The Authority assumed management of King's Alley in July 2001 after default on its collateral guarantee. King's Alley operating loss increased during fiscal year 2003 compared to fiscal year 2002 and fiscal year 2002 compared to fiscal year 2001. This was due in both years to a) a decrease in tourist activity during 2002 resulting in lower occupancy rates during the year; and b) cancellation of St. Croix as a port of call by the cruise line industry as well as an increase in the hotel's property insurance rates due to worldwide insurance premiums increases following September 11, 2001.

DEBT ADMINISTRATION

At year end, the Authority had approximately $780 million in bonds outstanding as follows.

	Bonds Outstanding 9/30/2001	(in thousands) New Issuances	Debt Payments	Bonds Outstanding 9/30/2002	(in thousands) New Issuances	Debt Payments	Bonds Outstanding 9/30/2003
2002 Series				-	$ 20,845	$ (2,200)	$ 18,645
1999 Series	$ 292,180	-	$ (4,305)	$ 287,875		(4,540)	283,335
1998 Series	499,495	-	(12,525)	486,970		(13,225)	473,745
Y2K Series	9,915	-	(2,620)	7,295		(2,785)	4,510
Total	$ 801,590	-	$ (19,450)	$ 782,140	$ 20,845	$ (22,750)	$ 780,235

Defeased bonds outstanding from prior years amounted to $165 million (1989 Series) ($172 million in 2002) and $192 million (1994, 1993, 1992 and 1991) ($204 million in 2002) at year end.

Loans outstanding were as follows:

	Loans Outstanding 9/30/2001	New Issuances	Debt Payments	*(in thousands)* Loans Outstanding 9/30/2002	New Issuances	Debt Payments	Loans Outstanding 9/30/2003
Bond Anticipation					$ 100,000		$ 100,000
WICO	$ 21,281		$ (958)	$ 20,323	22,500	$ (20,808)	22,015
Total	$ 21,281	-	$ (958)	$ 20,323	$ 122,500	$ (20,808)	$ 122,015

WICO

In November 2002, WICO consolidated and refinanced its long term debt and obtained an additional $2.0 million in additional financing to fund further infrastructure developments.

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

Tax Collections

Bonds issued by the Authority are supported by pledged rum excise tax revenues and gross receipts tax revenues. Rum excise taxes are Federal excise tax collections from rum which are returned to the Government of the Virgin Islands from the Federal Government. Rum production occurs at one private facility. Gross receipts tax revenues are a tax on gross professional services and sales. Debt service payments of principal and interest from these revenue sources for the past three years are as follows:

	Year ending September 30,		
	2003	**2002**	**2001**
		(in thousands)	
Excise rum tax:	$ 40,402	$ 40,397	$ 40,391
Gross receipts tax:	$ 22,358	$ 22,358	$ 22,357

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

Investment Performance and Agreements

The Authority investments include Aaa rated money market funds and commercial paper. Due to declining interest returns, the Authority entered into three debt service agreements during fiscal year 2002. The terms of the agreements provide a guaranteed return in exchange for the guaranty of Authority debt service reserves. The Authority received $1.582 million in fees upon entering into the agreements and a guaranteed average rate of return of 5% to 6% on investments subject to the agreements.

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
Statement of Net Assets
September 30, 2003 and 2002

	2003	2002
Assets		
Current assets		
Cash and cash equivalents	$ 13,802,943	$ 14,347,617
Receivables, net	1,888,613	1,697,316
Loans receivable - Government Development Bank	4,215	38,119
Loans receivable - Government of the Virgin Islands	124,481,322	20,550,000
Prepaid expenses	2,620,132	2,134,871
Other assets	914,754	221,679
Total current assets	143,711,979	38,989,602
Noncurrent assets		
Restricted cash and cash equivalents	1,737,930	19,100,844
Restricted investments	198,563,367	109,036,124
Pooled investments		19,476,802
Assets held in trust:		
Pooled investments	-	16,281,349
Loan receivable - Government of the Virgin Islands	755,750,000	761,590,000
Bond discount and issuance costs	12,325,532	12,044,035
Capital assets, net of depreciation	39,973,326	33,957,510
Total noncurrent assets	1,008,350,155	971,486,664
Total assets	$ 1,152,062,134	$ 1,010,476,266
Liabilities		
Current liabilities		
Accrued expenses	$ 3,525,568	$ 2,805,502
Loans payable other	100,000,000	-
Loans payable related to capital assets	734,813	1,029,851
Bonds payable	24,485,000	20,550,000
Total current liabilities	128,745,381	24,385,353
Noncurrent liabilities		
Loans payable related to capital assets	21,280,208	19,293,678
Bonds payable (including a reduction of $3,080,149 and $3,696,169 in 2003 and 2002 due to a deferred amount on defeased bonds)	752,669,851	757,893,831
Restricted assets held for the Government of the Virgin Islands	96,590,672	62,993,076
Deferred income	1,162,286	1,356,000
Payable from assets held in trust	-	11,881,327
Payable from restricted assets	92,654,609	71,826,377
Total noncurrent liabilities	964,357,626	925,244,289
Total liabilities	$ 1,093,103,007	$ 949,629,642
Net assets		
Invested in capital assets, net of related debt	17,958,305	13,722,349
Restricted	32,917,916	40,340,737
Unrestricted	8,082,906	6,763,538
Total net assets	$ 58,959,127	$ 60,826,624

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

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
Statement of Revenues, Expenses and Changes in Net Assets
Years ended September 30, 2003 and 2002

	2003	2002
Operating revenues		
Charges for services	$ 12,988,843	$ 13,115,001
Other	1,817,227	83,350
Total operating revenues	14,806,070	13,198,351
Operating expenses		
General and administrative	11,360,425	10,586,026
Depreciation	1,477,450	1,305,616
Total operating expenses	12,837,875	11,891,642
Operating income	1,968,195	1,306,709
Nonoperating revenues (expenses)		
Interest income		
Cash and investments	5,637,084	4,994,986
Loans receivable	46,406,130	46,508,961
Other investment income	193,714	32,286
Amortization of bond discount and issuance costs	(1,250,721)	(1,037,040)
Interest expense	(47,958,625)	(48,407,463)
Gain on sale of fixed assets	217,989	12,101
In lieu of taxes	(1,000,000)	(500,000)
Operating transfer to the Government of the Virgin Islands	(2,000,000)	-
Payments on behalf of the Government of the Virgin Islands	(4,081,263)	(14,355,787)
Total nonoperating (expenses)	(3,835,691)	(12,751,956)
Change in net assets	(1,867,497)	(11,445,247)
Total net assets at beginning of fiscal year	60,826,624	72,271,871
Total net assets at ending of fiscal year	$ 58,959,127	$ 60,826,624

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

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
Statements of Cash Flows
Years ended September 30, 2003 and 2002

	2003	2002
Cash flows from operating activities		
Cash received from customers	$ 12,842,149	$ 13,113,131
Cash paid to suppliers and employees for services	(10,360,787)	(11,020,704)
Other cash receipts	1,817,227	83,350
Net cash provided by operating activities	4,298,589	2,175,777
Cash flows from investing activities		
Purchases of investments	(217,897,170)	(91,647,812)
Interest received on investments	5,680,723	4,994,972
Investment maturities and sales	159,351,630	105,830,684
Net cash (used) provided by investing activities	(52,864,817)	19,177,844
Cash flows from capital and related financing activities		
Proceeds from long-term debt issuance	52,462,000	-
Acquisition of property and equipment	(5,853,666)	(1,577,839)
Proceeds from sales of capital assets		-
Interest payment on long-term debt related to capital assets	(1,039,446)	(1,287,148)
Principal payments on loans payable related to capital assets	(20,808,508)	(957,341)
Net cash provided (used) in capital and related financing activities	24,760,380	(3,822,328)
Cash flows from non-capital financing activities		
In lieu of taxes paid	(500,000)	(500,000)
Interest paid on bonds payable	(46,303,222)	(46,504,295)
Interest collected on loans receivable	46,305,150	46,508,961
Other investment income	-	1,582,000
Payment of bond issuance costs	(2,652,645)	(1,096,462)
Proceeds from loan note	100,000,000	-
Decrease in loan receivable	22,783,904	19,481,166
Principal payments on bonds payable	(22,750,000)	(19,450,000)
Payments on behalf of Government of the Virgin Islands	(88,322,306)	(8,988,219)
Increase in other non-operating assets	(2,662,621)	(107,694)
Payments from restricted assets	-	(15,030,365)
Net cash provided (used) in non-capital financing activities	5,898,260	(24,104,908)
Net decrease in cash and restricted cash	(17,907,588)	(6,573,615)
Cash and restricted cash at beginning of year	33,448,461	40,022,076
Cash and restricted cash at end of year	$ 15,540,873	$ 33,448,461
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 1,968,195	$ 1,306,709
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	1,477,450	1,305,616
Provision for bad debts	21,000	19,045
Proceeds from sale of fixed assets	217,989	12,101
Amortization of non-operating prepaid expenses	-	270,781
Changes in operating assets and liabilities that increase (decrease) cash:		
Receivables	(201,444)	(20,930)
Accrued expenses and other liabilities	556,255	(182,781)
Prepaid expenses and other assets	259,144	(534,764)
Total adjustments	2,330,394	869,068
Net cash provided by operating activities	$ 4,298,589	$ 2,175,777

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

1. Reporting Entity and Significant Accounting Policies

Reporting Entity

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

General Obligation Bonds

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

Debt Limits

On August 23, 1999, the Legislature amended the Virgin Islands Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically 2 V.I.C. section 256, provides that the amount of debt of the Government of the Virgin Islands existing on October 1, 2000 shall be the debt limit of the Government of the Virgin Islands, exclusive of bond principal and interest that may become due. At year end, the Authority was below the Legislature imposed limit. The debt limit shall not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds.

Future Bond Issuances

Subsequent to year end, the Authority issued $268 million of Revenue Bonds Series 2003A for the purpose of (i) repaying the Authority's Revenue Bond Anticipation Notes; and (ii) funding certain necessary public safety and other public sector capital development projects.

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

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

The Authority prepares its financial statements in conformity with accounting principles generally accepted in the United States of America for a governmental enterprise fund, which are similar to those for private business enterprises. In accordance with Government Accounting Standard No. 20 issued by the Government Accounting Standard Board (GASB), the Authority follows all Financial Accounting Standard Board pronouncements (FASB's) and certain other pronouncements issued prior to November 30, 1989 that do not conflict with GASB standards. In accordance with paragraph 7 of GASB Statement No. 20, the Authority has elected to follow all non-conflicting FASB and other pronouncements issued after November 30, 1989. Expenses are recorded when incurred and revenues are recorded when earned.

The Authority accounts for refundings of debt under the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt by Proprietary Activities.* This Statement establishes standards of accounting and financial reporting for current and advance refundings resulting in defeasance of debt reported by proprietary activities. Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. This Statement requires for both current and advance refundings, that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount should be reported on the statement of condition (net assets) as an addition to or deduction from the new debt. Effective October 1, 2001, the Authority implemented Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments,* (GASB) Statement No. 37, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments:Omnibus,* and (GASB) Statement No. 38, *Certain Financial Statement Note Disclosures.* As a result of this implementation, a Management Discussion and Analysis section, which describes the overall financial condition of the Authority, accompanies these financial statements as required supplementary information. The financial statements are presented in a classified format, with separate presentation of operating and nonoperating revenues.

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

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

The West Indian Company: Property management activities related to the management of the West Indian Company ("WICO") a wholly-owned subsidiary consisting primarily of servicing cruise ships owned by established shipping lines.

King's Alley Management, Inc.: Property management activities related to Kings Alley Management, Inc., a wholly owned subsidiary, formed on July 22, 2001, consisting primarily of managing the King's Alley Hotel, King's Alley Walk, and a shopping center in Frederiksted, St.Croix.

Investments
Under GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for Most External Investments Pools" (GASB 31), the Authority reports investments at fair value in the balance sheet and changes in the fair value in the statement of income.

Investments are restricted by various bond resolutions of the Authority and the Act, generally, to direct obligations of the U.S. Government, the Virgin Islands, or any state, territory, possession or Commonwealth of the United States, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing.

Investments managed by the Authority are as follows:

1999 Series A Revenue Bonds: Proceeds of the 1999 bonds that were issued to (i) pay certain working capital obligations of the Government, (ii) pay the Government's outstanding 1999 tax and revenue anticipation note, (iii) fund the Series Debt Service Reserve Accounts and (iv) pay certain costs of issuing the Series 1999 A Bonds.

1998 Series Revenue & Refunding Bonds: Proceeds of the 1998 Bonds were used to (i) advance refund the outstanding prior debt of the Authority, (ii) repay the 1998 Revenue Anticipation Note, (iii) finance the payment of various capital projects, (iv) fund the Series Debt Service Reserve Accounts, and (v) pay certain costs of issuance of the 1998 Bonds.

Revenue Bonds Series 1992 A and 1992 B: The Series 1992 A and Series 1992 B bonds were issued to advance refund the previously outstanding Revenue Bonds Series 1989 A and Series 1989 B. The bonds were defeased May 1, 1998, with the proceeds of the issuance of the 1998 Series Revenue & Refunding Bonds ("1998 Series Bonds").

Government Development Revenue Bonds Series 1994 A, 1994 B and 1994 C: These bonds were issued to fund various capital improvements and economic development projects on the island of St. Croix. The bonds were defeased May 1, 1998, with the proceeds of the 1998 Series Bonds.

Government Construction and Revolving Loan: Proceeds of the Series 1989 B bonds were deposited with the Authority to make distributions to the Government and loans to agencies, instrumentalities, commissions, authorities and political subdivisions of the Government for the purpose of financing capital projects approved by the Legislature or otherwise authorized by law.

Transportation Trust 1989 Series Bonds: These bonds were issued to provide funding for the maintenance, improvement, repair and construction of the road and highway system in the Virgin Islands. These bonds were defeased May 1, 1998 with the proceeds of the 1998 Series Bonds.

Y2K: Activities related to funding the various upgrades, acquisitions, and improvements to the computer information systems owned by the Government of the Virgin Islands as a result of shortcomings in many electronic data processing systems, and other electronic equipment for identifying, and/or processing, transactions with the Year 2000.

Revenue Bonds Series 2002: These bonds were issued to provide financing of certain federal-aid-transportation projects. The bonds were dated October 1, 2002

Series 2003 Revenue Bond Anticipation Note: These notes were issued to finance working capital obligations of the Government of the US Virgin Islands. The notes were dated September 4, 2003.

During 2003, the Authority charged the Government of the Virgin Islands fees amounting to $3,817,227 ($2,000,000 for 2002) for its investment and bond management services.

Payments and Transfers on Behalf of Government
Transfers to the Government of the Virgin Islands include distributions from excess revenues of tax collections and interest earned on other funds.

During the 2003 fiscal year, capital expenditures of $943 thousand ($2.7 million in 2002) were disbursed from the restricted investments related to the 1992 Revenue and 1994 Revenue bonds, and $3.5 million ($17.0 million in 2002) were disbursed from the 1998 Bond investments. The disbursements from the 1992 Revenue and the 1994 Revenue bond investments are recorded as a reduction of the Restricted Assets held for Government of the Virgin Islands in the accompanying balance sheet. The disbursements from the 1998 Bond investments are recorded as payments from restricted investments and payments on behalf of the Government for the disbursements paid from reprogrammed interest earnings.

Capital Assets
Capital assets are recorded at cost and depreciated using the straight-line method over the estimated useful life of the assets. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major improvements are capitalized as additions to capital assets.

Taxes
The Authority is a tax-exempt entity created by statute. The Authority shall not be required to pay any taxes or assessments on any of the property acquired or to be acquired by it, or on any of its operations or activities, or on any income derived from any of its operations or activities, however, Prior to June 2003, WICO was required, under a specific bill, to contribute the greater of ten percent of net revenues, or $500,000 to the General Fund of the Government of the Virgin Islands. This payment shall be made annually in lieu of taxes. In June 2003, the Legislature approved Bill

No. 25-0038 to amend the annual payment in lieu of taxes to the greater of ten percent of net revenues, as defined or $1,000,000. Such amendment is effective for fiscal year 2003 and thereafter.

Operating and Nonoperating Revenues
Operating revenues of the Authority include revenues of the operating fund of the Authority, revenues from the West Indian Company complex, and King's Alley Management, Inc. complex.

Fair Value of Financial Instruments
The Authority uses the following methods and assumptions in estimating its fair value disclosures:

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

Cash and cash equivalents and due to/from the Government of Virgin Islands: the carrying amounts reported in the statement of net assets for these instruments approximate their fair values.

Bonds payable: bonds were issued in November 2002, November 1999, April 1999 and May 1998. These Bonds are reported at amortized cost.

Long-term debt: carrying value represents the debt's amortized cost.

Intra-account Transfers: investment earnings not otherwise restricted are transferred between Authority accounts in accordance with Board requests and Legislative acts.

Effect of Recent GASB Statements
Effective for periods beginning after June 15, 2003, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* provides guidance in accounting for organizations that are closely related to a primary government. The adoption of this statement, will not have, in the opinion of management, a material effect on the Authority's financial statements.

Also, GASB Statement No. 40 - Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3 addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that are not reported at fair value and that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this Statement also should be disclosed. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2004. The adoption of this statement, will not have, in the opinion of management, a material effect on the Authority's financial statements.

Finally, GASB Statement No. 42 - Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries. The provisions of this Statement are effective for fiscal periods beginning after December 15, 2004. The adoption of this statement, will not have, in the opinion of management, a material effect on the Authority's financial statements.

2. Cash, Cash Equivalents and Investments

As of September 30, 2003, cash consists of deposits in banks and is categorized following the GASB Statement No. 3 on Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements. The categories for deposits are the following:

Category 1 - Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or its agent in the Authority's name.

Category 3 - Uncollateralized

The carrying amount of the deposits approximates their fair value. The following presents the deposits categorized:

	Category			Bank	Carrying
	1	2	3	Balance	Amount
2003					
Restricted	$ 100,000	$ -	$ 1,637,930	$ 1,737,930	$ 1,737,930
Unrestricted	316,811	-	13,491,987	13,788,839	13,802,943

	Category			Bank	Carrying
	1	2	3	Balance	Amount
2002					
Restricted	$ 17,020,002	$ -	$ 2,080,842	$ 19,100,844	$ 19,100,844
Unrestricted	3,217,419	-	11,121,933	14,339,352	14,347,617

Investments

Investments include investments restricted for specific purposes and investments held in trust.

Pursuant to the requirements of the Indenture of Trust, certain assets of the Government are maintained in a reserve account controlled by the Authority, and may be used only for the payment of principal and interest on the 2002 Bonds Series, 1999 Bonds Series A and the 1998 Bonds Series A, B, C, D & E.

Pursuant to the requirements of the Loan Agreement between the bank and the Government, certain assets are maintained in a reserve account controlled by the Authority for the payment of principal and interest on the long-term note obtained to finance the acquisition of the West Indian Company, and to manage construction and protect funds for the defeased bonds.

Investments in the reserve accounts at September 30, 2003 were as follows:

Restricted	2003 Bond Anticipation Notes	2002 Series Revenue Bonds	1999 Bond Series	1998 Bonds Series A, B, C, D & E	1994 Revenue Bond Series A,B and C
Debt service reserve	$ -	$ 2,307,357	$26,322,187	$ 78,713,199	$ -
Project Fund		15,806,766	9,457,867	20,196	6,088,010
Construction Funds	30,763,330			2,758,611	
	$ 30,763,330	$ 18,114,123	$35,780,054	$ 81,492,006	$ 6,088,010

(Restricted cont'd)	Swap Option	VIPFA Y2K Project Fund	1992 Construction Bonds	TTF Construction Bonds	Total
Debt service reserve		$ 1,593,639	$ -	$ -	$108,936,382
Project Fund		1,218,762			32,591,601
Construction Funds	6,995,761		6,716,566	9,801,116	57,035,384
	$ 6,995,761	$ 2,812,401	$ 6,716,566	$ 9,801,116	$198,563,367

Investments in the reserve accounts at September 30, 2002 were as follows:

Restricted	1999 Bond Series	1998 Bonds Series A, B, C, D & E	1994 Revenue Bond Series A,B and C	VIPFA Y2K Project Activities	Total
Debt service reserve	$ 39,259,517	$ 55,378,523	$ -	$ 1,573,648	$ 96,211,688
Project Fund	14,398,084		9,006,413	1,203,473	24,607,970
Construction Funds		7,693,268			7,693,268
	$ 53,657,601	$ 63,071,791	$ 9,006,413	$ 2,777,121	$128,512,926

These investments may be categorized into three levels to provide an indication of risk assumed.

These categories are as follows:

Category 1 - Includes investments that are insured, or registered, or for which the Authority or its agent in the Authority's name holds the securities.

Category 2 - Includes investments that are uninsured and/or unregistered for which the securities are held by the brokers' or dealers' trust department or agent, in the Authority's name.

Category 3 - Includes investments that are uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Authority's name.

Restricted investments in the reserve accounts, all category 1, as of September 30, consist of:

	2003	2002
Commercial Paper	$ 66,949,321	$ 107,254,124
Federal Home Loan Notes	-	1,782,000
Money Market Fund	131,614,098	-
	$ 198,563,419	$ 109,036,124

Restricted investments in external pooled investment accounts, as of September 30, 2002 was $19,476,802.

In fiscal year 2002, the Authority entered into Debt Service Fund Agreements with Morgan Stanley, Bear Stearns and Banc of America. Under the terms of the agreements, the Authority accepted the guaranty of payment of debt service amounts in exchange for the receipt of a guaranteed rate of return on investments ranging from 5% to 6%. In consideration for entering into the agreements, the Authority received approximately $1.6 million in commitment fees recorded as other investment income in the Statement of Revenues, Expenses and Changes in Net Assets.

3. Loans Receivable

The Authority loaned the proceeds of the 2002 Revenue Bonds to the Government. The loan, which is secured with US Department of Transportation, Federal Highway Administration reimbursement revenues, bear the same interest rate, maturities, and repayment terms as the bonds payable (see Note 6).

The Authority loaned the proceeds of the 2003 Revenue Bond Anticipation Loan Note to the Government. The loan, which is secured with pledged gross receipts taxes collected pursuant to Title 3, Section 43 of the Virgin Islands Code, bear the same interest rate, maturities, and repayment terms as the bonds payable (see Note 7).

The Authority loaned the proceeds of the 1999 Bonds Series A bonds to the Government. The loan, which is secured with pledged gross receipts taxes collected pursuant to Title 3, Section 43 of the

Virgin Islands Code, bear the same interest rate, maturities, and repayment terms as the bonds payable (see Note 6).

The Authority loaned the proceeds of the 1998 Bonds Series A, B, C, D and E to the Government. The loans, which are secured with pledged matching fund revenues pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, bear the same base interest rates, maturities, and repayment terms as the bonds payable (see Note 6).

The Authority loaned the proceeds of an April 1999 $ 13.5 million project revenue bond issuance to the Government. The loan is secured by lease payments made by the Government to the Authority pursuant to a municipal lease purchase agreement dated April 13, 1999 and bears interest of 6.25% with a maturity date of January 1, 2005.

4. Assets Held in Trust

As of September 30, 2003, the Authority no longer manages any investments for the Government and its agencies in pooled investments. As of September 30, 2002 the Authority managed $4,302,565 in pooled investments for the VI Government, and $11,978,784 in investments for a VI Government agency.

5. Capital Assets

Capital assets at September 30, 2003 and 2002 follows:

	Balance 9/30/02	Additions Net of transfers	Disposals	Balance 9/30/03
Land	$ 5,037,451		$ (17,445)	$ 5,020,006
Construction in progress	1,119,249	$ (397,448)		721,801
Buildings and building improvements	33,242,283	7,631,287	-	40,873,570
Personal property and equipment	1,426,815	249,430	(114,587)	1,561,658
Total	40,825,798	7,483,269	(132,032)	48,177,035
Less - accumulated depreciation	(6,888,288)	(1,449,361)	133,940	(8,203,709)
Total Capital Assets, net	$ 33,937,510	$ 6,033,908	$ 1,908	$ 39,973,326

6. Bonds Payable

On February 28, 2003, the Authority entered into a swaption contract that provided the Authority with an up-front payment of $8.3 million. The Authority has outstanding $243,985,000 Series of 1999A Bonds with maturities from 2011 to 2029. The 1999A Bonds are callable by the Authority on October 1, 2010 at 101%. Having been advised by its underwriters and financial advisor that there were no net present value savings available to it by issuing conventional advance refunding bonds, the Authority sold a LIBOR based swaption to Lehman Brother Special Financing, Inc. on the 2024 and 2029 maturities, totaling $162,870,000. Lehman purchased the swaption for $8,367,000 and it is exercisable on July 1, 2010 only. The objective of the Authority was to monetize the economics of the Series of 1999 A Bonds call option and lock in the favorable interest rates prevailing on February 28, 2003 without currently issuing refunding bonds. The swaption was the most efficient mechanism available to the Authority to effect savings from the Series of 1999 A Bonds at that time. As a synthetic refunding of its 1999 Series A Bonds, this payment represents the risk-adjusted, present-value savings of a refunding as of October 1, 2010, without issuing refunding bonds at February 2003. The swaption gave the counterparty the option to make the Authority enter into a pay-fixed, receive-variable interest rate swap. If the option is exercised, the Authority would then expect to issue variable-rate refunding bonds.

The up-front payment of $8.3 million was received by the Authority on behalf of the primary Government. The amount is restricted for capital projects. As of September 30, 2003, the Authority had expended $1.4 million of the up-front payment.

The $8.3 million payment was based on a notional amount of $174.9 million. The counterparty has the option to exercise the agreement on October 1, 2010 - the Authority's 1999 bonds' first call date. If the swap is exercised, the swap will also commence October 1, 2010. The fixed swap rate (5.27 percent) was set at a rate that, when added to an assumption for remarketing and liquidity costs, will approximate the coupons of the "refunded" bonds. The swap's variable payment would be 64 percent of the London Interbank Offered Rate (USD-LIBOR-BBA).

As of September 30, 2003, the swap had a negative fair value of approximately $18,960,000 in favor of the counterparty estimated using the zero-coupon method. This method calculated the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments were then discounted using the spot rates implied by the current yield curve for the hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

If the option is exercised and refunding bonds are not issued, the 1999 bonds would not be refunded and the Authority would make net swap payments as required by the terms of the contract—that is, making a fixed payment to the counterparty for the term of the swap at 5.27 percent and receiving a variable payment of 64 percent of LIBOR. If the option is exercised and the variable-rate bonds issued, the actual savings ultimately recognized by the transaction will be affected by the relationship between the interest rate terms of the to-be-issued variable-rate bonds versus the variable payment on the swap (64 percent of LIBOR). If the option is not exercised, the Authority is not obligated to repay the up-front payment.

On October 1, 2002, the Authority issued the Series 2002 Revenue Bonds ("Garvee Bonds") , the proceeds of which amounted to $20,845,000. The bonds are special, limited obligations, secured solely by the pledge and assignment of the Government's security interest in Federal Highway Reimbursement Revenues. The bonds were issued to (i) fund construction costs related to renovation and construction of two sea docks, (ii) fund the Debt Service Reserve Accounts, and (iii) pay certain costs of issuing the bonds. The Series 2002 Bonds are not subject to redemption prior to maturity.

On November 1, 1999, the Authority issued the 1999 Series A Bonds, the proceeds of which amounted to $299,880,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) pay certain working capital obligations of the Government, (ii) repay the Government's outstanding 1999 tax and revenue anticipation note, (iii) fund the Series Debt Service Reserve Accounts and (iv) pay certain costs of issuing the bonds.

On April 13, 1999, the Authority borrowed under a project revenue bond $ 13.55 million, with an interest rate of 6.25%, to finance a portion of the Government's Year 2000 (Y2K) compliance effort including the costs related to transportation, installation and related hardware, software, consulting services and related expenses. The bond is payable in ten semi-annual payments of principal and interest with the first payment of interest only due January 1, 2000. The Government is responsible for all principal and interest payments on the 1999 Project Revenue Bond. The principal and interest payments are funded by periodic lease payments.

On May 1, 1998 the Authority issued the 1998 Series A, B, C, D, and E Bonds, which proceeds amounted to $541,820,000. These bonds are not guaranteed by the Government, however, the Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 1998 Series Bonds.

These bonds were issued for the purpose of, among others, the advance refunding of previously issued bonds. The advance refunding of these bond series was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40 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. Approximately $304,520,000 in funds was deposited into the Escrow Fund accounts. At September 30, 2003, $192,835,000 of defeased bonds were outstanding. The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest on the 1998 Revenue Anticipation Note. The balance of the 1998 Series D Bond financed approximately $ 11,600,000 in additional working capital. The 1998 Series E Bonds were designated to fund the construction of certain capital projects.

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, 2003, $165,945,000 of defeased bonds was outstanding.

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

Pledged Funds

The Government has pledged and assigned Federal Highway Reimbursement Revenues to the timely payment of the principal and interest on the 2002 Series Bonds.

The Government has pledged Gross Receipts Taxes subject to the annual moderate income housing fund deposit, as well as any prior lien or pledge, to the timely payment of the principal and interest on the 1999 Series Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

The Government has pledged the Matching Fund Revenues, as described below, to the timely payment of principal and interest on the 1998 Series A, B, C, D and E Bonds. Thus, all amounts to be received by the Government from federal excise tax, mostly for rum, are deposited directly in a trust account from which the 1998 Bonds are paid in accordance with the Indenture of Trust.

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

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

A summary of bond activity (gross) during fiscal year 2003 follows (in thousands):

	1998 Bonds	Y2K Project Revenue Bonds	Series 1999 A Revenue Bonds	2002 Series Revenue Bonds	Total
Balance at 9/30/01	$ 499,495	$ 9,915	$ 292,180	$ -	$ 801,590
Bond Issuance	-	-	-	-	-
Principal payments	(12,525)	(2,620)	(4,305)	-	(19,450)
Balance at 9/30/02	486,970	7,295	287,875	-	782,140
Bond Issuance	-	-	-	20,845	20,845
Principal payments	(13,225)	(2,785)	(4,540)	(2,200)	(22,750)
Balance at 9/30/03	$ 473,745	$ 4,510	$ 283,335	$ 18,645	$ 780,235

Bonds payable at September 30, 2003 are comprised of the following:

	2003	2002
2002 Series Revenue Bonds Interest at 2.50% to 5.00%	$ 18,645	$ -
1998 Series A, B, C, D and E Revenue & Refunding Bonds Interest at 5.50% to 7.11%	473,745	486,970
1999 Y2K Project Revenue Bonds Interest at 6.25%	4,510	7,295
1999 Series A Revenue Bonds Interest at 4.20% to 6.50%	283,335	287,875
Total Bonds payable	780,235	782,140
Less: Current portion	(24,485)	(20,550)
Deferred amount on defeased bonds	(3,080)	(3,696)
Long-term portion of bonds payable	$ 752,670	$ 757,894

Interest on the 2002 bonds is payable semi-annually on March 1 and September 1, and the principal is payable annually on September 1.

Interest on the 1999 bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 1999 Series Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest and principal on the 1999 Y2K bond is payable semi-annually on January 1 and July 1.

Interest on the 1998 bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 1998 Series bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest paid related to bonds payable during the year ended September 30, 2003 and 2002 was as follows:

	2003	2002
2002 Series Revenue Bonds	$ 826,284	$ -
1998 Revenue & Refunding Bonds	27,177,013	27,871,814
1999 Series Bonds	17,816,331	18,053,106
Y2K Bonds	483,594	579,375
	$ 46,303,222	$46,504,295

Maturity dates and debt service requirements as of September 30, 2003 for the Series 2002 Revenue Bonds is as follows (in thousands):

	SERIES 2002 BONDS		
October 1	Principal	Interest	Total
2004	$ 2,805	$ 847	$ 3,652
2005	2,900	749	3,649
2006	3,000	647	3,647
2007	3,155	497	3,652
2008	3,310	339	3,649
2009-2013	3,475	174	3,649
	$ 18,645	$ 3,253	$ 21,898

Maturity dates and debt service requirements as of September 30, 2003 for the Series 1999 A Revenue Bonds is as follows (in thousands):

	Series 1999 A		
October 1	Principal	Interest	Total
2004	$ 4,765	$ 17,590	$ 22,355
2005	-	17,351	17,351
2006	-	17,351	17,351
2007	-	17,351	17,351
2008	-	17,351	17,351
2009-2013	34,585	80,919	115,504
2014-2018	-	77,028	77,028
2019-2023	81,115	56,344	137,459
2024-2028	69,015	33,229	102,244
2029-2033	93,855	5,749	99,604
	$ 283,335	$ 340,263	$ 623,598

Maturity dates and debt service requirements as of September 30, 2003 for the 1998 bonds are as follows (in thousands):

October 1	Series 1998 A Principal	Series 1998 A Interest	Series B Principal	Series B Interest	Series C Principal	Series C Interest
2004	$ -	$ 15,821	$ -	$ -	$ 9,990	$ 3,057
2005	-	15,821	-	-	10,555	2,519
2006	-	15,821	-	-	11,150	1,938
2007	-	15,821	-	-	11,780	1,324
2008	-	15,821	-	-	12,455	847
2009-2013	73,175	71,617	-	-		
2014-2018	96,095	49,550	-	-	-	-
2019-2023	83,375	21,219	-	-	-	-
2024-2028	36,430	2,588	-	-	-	-
	$ 289,075	$ 224,079	$ -	$ -	$ 55,930	$ 9,685

October 1	Series 1998 D Principal	Series 1998 D Interest	Series 1998 E Principal	Series 1998 E Interest	Total 1998 Principal	Total 1998 Interest	Total
2004	$ 3,965	$ 1,331	$ -	$ 6,261	$ 13,955	$ 26,470	$ 40,425
2005	4,210	1,097	-	6,261	14,765	25,698	40,463
2006	4,470	844	-	6,261	15,620	24,864	40,484
2007	4,750	576	-	6,261	16,530	23,982	40,512
2008	4,915	366	-	6,261	17,370	23,295	40,665
2009-2013	-	-	30,095	27,946	103,270	99,563	202,833
2014-2018	-	-	39,665	18,230	135,760	67,780	203,540
2019-2023	-	-	36,670	5,596	120,045	26,815	146,860
2024-2028	-	-	-	-	36,430	2,588	39,018
2029-2033	-	-	-	-	-	-	-
	$ 22,310	$ 4,214	$ 106,430	$ 83,077	$ 473,745	$ 321,055	$ 794,800

Maturity dates and debt service requirements as of September 30, 2003 for the Y2K bond is as follows (in thousands):

January 1 and July 1	Principal	Interest	Total
2004	$ 2,960	$ 236	$ 3,196
2005	1,550	48	1,598
	-	-	
	$ 4,510	$ 284	$ 4,794

Total debt service payments for all bonds payable are summarized below (in thousands):

	Principal	Interest	Total
2004	$ 24,485	$ 45,143	$ 69,628
2005	19,215	43,846	63,061
2006	18,620	42,862	61,482
2007	19,685	41,830	61,515
2008	20,680	40,985	61,665
2009-2013	141,330	180,656	321,986
2014-2018	135,760	144,808	280,568
2019-2023	201,160	83,159	284,319
2024-2028	105,445	35,817	141,262
2029-2033	93,855	5,749	99,604
	$ 780,235	$ 664,855	$ 1,445,090

The Series 2002 Revenue Bonds are not subject to redemption prior to maturity. The Series 1999 A Bonds are not subject to optional redemption prior to October 1, 2010. On February 28, 2003, the Authority entered into a Swaption contract that provided a synthetic refunding of the 1999 bonds. If the Swaption is exercised by the counterparty, the Swap will commence October 1, 2010 and the Authority will pay a fixed rate of 5.27% and issue variable-rate refunding bonds. If the option is not exercised, the Authority may redeem the bonds at the respective redemption prices, expressed as a percentage of the principal amount redeemed as follows:

1999 Series A	Price
October 1, 2010 through September 30, 2011	101%
October 1, 2011 and thereafter	100%

The 1998 Series A and E Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

1998 Series A	Price
October 1, 2008 through September 30, 2009	101%
October 1, 2009 through September 30, 2010	100.5%
October 1, 2010 and thereafter	100 %

1998 Series E	Price
October 1, 2008 through September 30, 2009	101%
October 1, 2009 through September 30, 2010	100.5%
October 1, 2010 and thereafter	100%

1998 Series B, C and D are not redeemable at the option of the Authority.

7. Long-Term Debt

Long-term debt outstanding was as follows:

(in thousands)

	Loans Outstanding 9/30/2001	New Issuances	Debt Payments	Loans Outstanding 9/30/2002	New Issuances	Debt Payments	Loans Outstanding 9/30/2003
Bond Anticipation					$ 100,000		$ 100,000
WICO	$ 21,281		$ (958)	$ 20,323	22,500	$ (20,808)	22,015
Total	$ 21,281	-	$ (958)	$ 20,323	$ 122,500	$ (20,808)	$ 122,015

On September 4, 2003, the Authority issued $100,000,000 Bond Anticipation Notes (BANs), in anticipation of the issuance of the 2003 Series A Bonds. Interest accrued quarterly at a rate of 3.25%. The proceeds of the BANs were loaned to the Government of the Virgin Islands under the same terms, for the purposes of (i) funding vendor payments and tax refunds, (ii) funding capitalized interest, and (iii) paying the cost of issuance of the Bond Anticipation Notes. On December 17, 2003, the 2003 Series A Bonds were issued, and the Bond Anticipation Notes were repaid.

On November 20, 2002, WICO consolidated and refinanced existing loan balances. Under the terms of the refinancing, the Authority entered into a 20 year loan with a commercial bank at a fixed rate of 4.5% for the first four years of the twenty-year term of the loan. Interest rate after the four-year fixed interest period will be set at one of the following three options: a) prime rate plus 75 basis points, b) 1 year-Libor plus 200 basis points, or c) 3-year Treasury notes plus 125 basis points. The remaining balance at the end of the four-year period will be repaid in 240 consecutive monthly installments.

Future minimum payments of principal for the five years subsequent to September 30, 2003 and thereafter are as follows:

2004	$ 734,813
2005	768,257
2006	803,550
2007	840,465
2008	879,076
Thereafter	17,988,860
	22,015,021
Less-current portion	734,813
Total	$ 21,280,208

The Authority has pledged WICO revenues to the timely payment of principal and interest of the loan. Interest paid during fiscal year 2003 amounted to $1.0 million for WICO.

8. Commitments

Future Minimum Lease Payments
The Authority entered into a twenty-year lease for a property in St. Croix from February 15, 1996 through February 15, 2016. Future minimum lease payments for the remaining periods are as follows:

2004	$ 45,000
2005	45,000
2006	45,000
2007	55,000
2008	55,000
2009-2013	305,000
2014-2016	193,125
Total future minimum payments	$ 743,125

Financial Advisory Agreements
In fulfilling its duties, the Authority has entered into financial advisory contracts with an investment manager. Future contract payments under this agreement are as follows:

2004	$ 750,000
2005	187,000
	$ 937,000

9. Contingencies

The Authority has a loan receivable amounting to approximately $882.6 ($782 million in 2002) from the Government (see Note 3). The principal and interest to be paid by the Government to the Authority on the loans receivable is mainly derived from excise taxes on exported rum received by the Government and gross receipts taxes, as more fully described in Note 6 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the 1999 and 1998 Bonds.

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

The Government is currently experiencing financial difficulties. In the event that the subsidy is discontinued, the rum producer could experience a decrease in its operations, and therefore result in a reduction of the federal excise taxes returned to the Government by the United States Government. As a result, the collectibility of the loans receivable from the Government is highly dependent on the ability of the government in collecting these taxes.

The Authority is managing the operations related to King's Alley Hotel through King's Alley Management, Inc., a wholly-owned subsidiary. The hotel was received in foreclosure by Marshall's sale, upon default of the loan guarantee given by the Authority to the developer of the property.

The Series 2002 Bonds are secured by pledged revenues under the Federal Highway Reimbursement Program under the Transportation Equity Act for the 21st Century (TEA-21) which was scheduled to expire on September 30, 2003. On October 1, 2003, President Bush signed a 5 month extension of the Act to fund transportation activities through February 29, 2004. Legislation entitled Surface Transportation Reauthorization Act (SAFETEA) is currently under review by Congress at the date of this report.

10. Concentration of Risk

All of the matching fund revenues are derived from federal excise taxation of the sale of rum produced in the Virgin Islands. All the rum production in the Virgin Islands is by a single producer.

11. Subsequent Events

In December 2003, the Authority issued the 2003 Series A Revenue Bonds amounting to $268 million. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2022. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the Bonds. The proceeds from the Series 2003A Bonds will be used to: (i) repay the Authority's outstanding $100,000,000 principal amount Revenue Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund the Debt Service Reserve Account in an amount necessary to satisfy debt service reserve requirements, and (iv) pay the costs of issuing the 2003A Bonds. The Series A Bonds are not subject to optional redemptions prior to October 1, 2014.

In December 2003, the Authority relinquished possession of the King's Alley Mall to the Inglovstad Family Trust. Legal title of the King's Alley Hotel, remains with King's Alley Management Inc. a wholly owned subsidiary of PFA.

In February 2004, the Authority approved the issuance of 30 year private activity bonds in the amount of $50.6 million for HOVENSA, SA, an oil refinery on the island of St. Croix. HOVENSA, SA is solely responsible for the debt service payments on the bonds. In April 2004, the Authority authorized the increase in the allocation from $50.6 million to $50.7 million in private activity bond volume cap to HOVENSA, SA. The issuance was made in April 2004.

Virgin Islands Public Finance Authority

(a blended component of the Government of the Virgin Islands)

Schedule on Condensed Financial Information

For the year ended September 30, 2003

Description	Operating	The West Indian Company	King's Alley Management Inc.	Total From Activities	2003 Bond Anticipation Loan Note	2002 Garvey Bonds	Swap Option Agreement	1999 Series A Revenue Bonds	1998 Series Revenue & Refunding Series Bonds	Revenue Bonds Series 1992 A and Series 1992 B	Revenue Bonds Series 1994 A Series 1994 B and Series 1994 C	Government Construction and Revolving Loan	Transportation Trust 1989 Series Bonds	Y2K	Total from Bond and Investment Management	Total
Assets																
Current Assets																
Loan Receivable Government of the Virgin Islands	$ -	$ -	$ -	$ -	$ 100,000,000	$ 2,801,322	$ -	$ 4,765,000	$ 13,955,000	$ -	$ -	$ -	$ -	$ 2,960,000	$ 124,481,322	$ 124,481,322
Other current assets	8,429,933	7,734,864	478,738	16,643,535					2,512,438			4,215		70,469	2,587,122	19,230,657
Total current assets	8,429,933	7,734,864	478,738	16,643,535	100,000,000	2,801,322	-	4,765,000	16,467,438	-	-	4,215	-	3,030,469	127,068,444	143,711,979
Noncurrent assets:																
Loan Receivable Government of the Virgin Islands				-		15,840,000		278,570,000	459,790,000					1,550,000	755,750,000	755,750,000
Other Non current assets		2,204,762		2,204,762	31,988,549	18,207,443	6,995,761	42,076,409	85,735,813	6,716,565	6,088,010		9,801,115	2,812,401	210,422,066	212,626,828
Capital assets		35,850,961	4,122,366	39,973,327											-	39,973,327
Total noncurrent assets	-	38,055,723	4,122,366	42,178,089	31,988,549	34,047,443	6,995,761	320,646,409	545,525,813	6,716,565	6,088,010	-	9,801,115	4,362,401	966,172,066	1,008,350,155
Total assets	$ 8,429,933	$ 45,790,587	$ 4,601,104	$ 58,821,624	$ 131,988,549	$ 36,848,765	$ 6,995,761	$ 325,411,409	$ 561,993,251	$ 6,716,565	$ 6,088,010	$ 4,215	$ 9,801,115	$ 7,392,870	$ 1,093,240,510	$ 1,152,062,134
Liabilities																
Current Liabilities:																
Bonds Payable	$ -		$ -	$ -	$ -	$ 2,805,000	$ -	$ 4,765,000	$ 13,955,000	$ -	$ -	$ -	$ -	$ 2,960,000	$ 24,485,000	$ 24,485,000
Other Current Liabilities	603,203	3,278,931	114,064	3,996,198	100,000,000			105,306	88,408					70,469	100,264,183	104,260,381
Due to (from) other funds	(597,688)		706,186	108,498		11,870				96,485	(282,959)	4,500	61,606		(108,498)	-
Total current liabilities	5,515	3,278,931	820,250	4,104,696	100,000,000	2,816,870	-	4,870,306	14,043,408	96,485	(282,959)	4,500	61,606	3,030,469	124,640,685	128,745,381
Noncurrent liabilities																
Loans Payable related to capital assets		21,280,208		21,280,208											-	21,280,208
Bonds Payable				-		15,840,000		278,570,000	456,709,851					1,550,000	752,669,851	752,669,851
Other non-current liabilities				-	32,000,000	18,102,254	6,964,705	34,498,084	90,297,198	298,938	6,409,503			1,836,885	190,407,567	190,407,567
Total noncurrent liabilities	-	21,280,208	-	21,280,208	32,000,000	33,942,254	6,964,705	313,068,084	547,007,049	298,938	6,409,503	-	-	3,386,885	943,077,418	964,357,626
Total Liabilities	$ 5,515	$ 24,559,139	$ 820,250	$ 25,384,904	$ 132,000,000	$ 36,759,124	$ 6,964,705	$ 317,938,390	$ 561,050,457	$ 395,423	$ 6,126,544	$ 4,500	$ 61,606	$ 6,417,354	$ 1,067,718,103	$ 1,093,103,007
NET ASSETS																
Total net assets	$ 8,424,418	$ 21,231,448	$ 3,780,854	$ 33,436,720	$ (11,451)	$ 89,641	$ 31,056	$ 7,473,019	$ 942,794	$ 6,321,142	$ (38,534)	$ (285)	$ 9,739,509	$ 975,516	$ 25,522,407	$ 58,959,127

Virgin Islands Public Finance Authority

(a blended component of the Government of the Virgin Islands)
Schedule on Condensed Financial Information
For the year ended September 30, 2003

Description	Operating	The West Indian Company	King's Alley Management Inc.	Total From Activities	2003 Bond Anticipation Loan Note	2002 Garvey Bonds	Swap Option Agreement
Operating revenues							
Charges for services	$ 2,000,000	$ 9,949,937	$ 1,038,906	$ 12,988,843	$ -	$ -	$ -
Other operating revenues	1,817,227			1,817,227			
	3,817,227	9,949,937	1,038,906	14,806,070	-	-	-
Operating expenses							
General and administrative	3,668,943	6,137,753	1,515,450	11,322,146			
Depreciation		1,254,780	222,670	1,477,450			
Total operating expenses	3,668,943	7,392,533	1,738,120	12,799,596	-	-	-
Operating income (loss)	148,284	2,557,404	(699,214)	2,006,474	-	-	-
Nonoperating revenues (expenses)							
Interest income	253,471	157,547	10,329	421,347		1,148,088	36,056
Other investment income				-			
Interest expense		(1,039,385)		(1,039,385)	(11,451)	(1,058,447)	
Gain on sale of fixed assets		217,989		217,989			
Account transfers	(44,181)			(44,181)			
Operating allotment				-			
In lieu of taxes		(1,000,000)		(1,000,000)			
Payments on behalf of GVI	(750,000)			(750,000)			
Total nonoperating revenue (expenses)	(540,710)	(1,663,849)	10,329	(2,194,230)	(11,451)	89,641	36,056
Change in net assets and transfers	$ (392,426)	$ 893,555	$ (688,885)	$ (187,756)	$ (11,451)	$ 89,641	$ 36,056

Description	1999 Series A Revenue Bonds	1998 Series Revenue & Refunding Series Bonds	Revenue Bonds Series 1992 A and Series 1992 B	Revenue Bonds Series 1994 A Series 1994 B and Series 1994 C	Government Construction and Revolving Loan	Transportation Trust 1989 Series Bonds	Y2K	Total From Bond and Investment Management	Total
Operating revenues									
Charges for services	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,988,843
Other operating revenues								-	1,817,227
	-	-	-	-	-	-	-	-	14,806,070
Operating expenses									
General and administrative			583		35,832	1,864		38,279	11,360,425
Depreciation								-	1,477,450
Total operating expenses	-	-	583	-	35,832	1,864	-	38,279	12,837,875
Operating income (loss)	-	-	(583)	-	(35,832)	(1,864)	-	(38,279)	1,968,195
Nonoperating revenues (expenses)									
Interest income	19,767,706	29,895,760	73,000	83,962	1,930	100,981	514,386	51,621,869	52,043,216
Other investment income	105,306	88,408						193,714	193,714
Interest expense	(18,384,423)	(28,232,048)					(483,594)	(48,169,963)	(49,209,348)
Gain on sale of fixed assets								-	217,989
Account transfers		10,129	6,966	13,925		8,672	4,489	44,181	-
Operating allotment		(2,000,000)						(2,000,000)	(2,000,000)
In lieu of taxes									(1,000,000)
Payments on behalf of GVI		(3,331,263)						(3,331,263)	(4,081,263)
Total nonoperating revenue (expenses)	1,488,589	(3,569,014)	79,966	97,887	1,930	109,653	35,281	(1,641,462)	(3,835,692)
Change in net assets and transfers	$ 1,488,589	$ (3,569,014)	$ 79,383	$ 97,887	$ (33,902)	$ 107,789	$ 35,281	$ (1,679,741)	$ (1,867,497)