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, 2004 and 2003

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
Index
September 30, 2004 and 2003

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, 2004 and 2003 and the changes in its financial postion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 October 1, 2001.

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 34 and 35, as of September 30, 2004 and for the year ended September 30, 2004 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

San Juan, Puerto Rico
May 17, 2005

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2007
Stamp 2039619 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, 2004 and 2003.

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

Financial Highlights

At September 30, 2004, the total assets of the Authority amounted to $1.395 billion, of which $39.9 million were capital assets (2003 - $1.152 billion of which $40 million were capital assets and 2002 - $1.010 billion of which $33.9 were capital assets). Total liabilities amounted to $1.330 billion of which $1.043 billion represent bonds and loans outstanding, and $288 million represent other liabilities (2003 - $1.093 billion of which $899.2 million were for bonds and loans outstanding, and $193.9 million were for other liabilities and 2002 - $949.6 million of which $802.5 million were for bonds and loans outstanding and $141.7 were for other liabilities). The total assets of the Authority exceeded its liabilities as of September 30, 2004 by $64 million (net assets) (2003 - $59 million and 2002 - $60.8 million). Unrestricted net assets amounted to $10.2 million (2003 - $8.1 million and 2002 - $6.8 million), net assets invested in capital assets, net of related debt amounted to $18.5 million (2003 - $18.0 million and 2002 - $13.7 million), and net assets restricted to debt and investment purposes amounted to $35.5 million (2003- $32.9 million and 2002 - $40.3 million).

During the fiscal year, operating income amounted to $4.5 million (2003 - $2.0 million and 2002 - $1.3 million). In addition, the Authority received principal and interest payments on loans to the Government of the Virgin Islands of $124.5 million (2003 - $22.8 million and 2002 - $19.5 million) and $56.5 million (2003 - $46.3 million and 2002 - $46.5 million), respectively. The Authority made debt service principal and interest payments on bonds of $24.5 million (2003 - $22.8 million and 2002 - $19.5 million) and $56.6 million (2003 - $46.3 million and 2002 - $46.5 million). The Authority made payments on behalf of the Government of the Virgin Islands during fiscal year 2004, from restricted investments amounting to $5.6 million (2003 - $4 million and 2002 - $14.4 million).

The Authority's net assets increased by $5.2 million or 8.8% in 2004 and decreased by $1.9 million or 3% in 2003.

The activities of the West Indian Company ("WICO") port facility resulted in an increase in net assets of $2.3 million (2003 - $894 thousand).

The activities of the King's Alley Management, Inc hotel facility resulted in a decrease in 2004 of $318 thousand, and a $689 thousand decrease in 2003.

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 7 through 30 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 31 and 32 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 increased by $5.2 million during fiscal year 2004 (2003 – decrease of $1.9 million). This increase was due to (i) an increase in bond issuance fees collected for advisory services to the Government of the Virgin Islands and (ii) an increase in operating revenues from its port facility. In 2003, the decrease 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 and iii) losses from the King's Alley hotel operations.

Non-current assets, excluding capital assets, increased from $968 million to $1.3 billion in 2004 (increased from $937.5 million in 2002 to $968 million in 2003). The increase was due to an increase in investments from additional loans, and bonds floated by the Authority in both 2004 and 2003.

Current assets decreased by $93 million (increased by $105 million in 2003) from the prior year due to the collection of the current portion of the Loan receivable from the Government of the Virgin Islands during 2004. During 2003, current asset increased mainly due to the insurance of short-term bond anticipation notes which were collected in 2004. Capital assets decreased due to depreciation of capital assets which was partially affect 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.

In 2004, operating revenues experienced an increase in the investment and bond management fees charged to the Government of the Virgin Islands by approximately $3.1 million (2003 – increase of $1.8 million), and an increase in WICO charges to cruise lines, which were partially offset by a decrease in King's Alley revenues during both 2004 and 2003(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,

	September 2004	(in thousands) September 2003	September 2002
Condensed information from Statement of Net Assets			
Current assets	$ 50,585	$ 143,712	$ 38,989
Non-current assets excluding capital assets	1,304,088	968,377	937,529
Capital assets (net of depreciation)	39,862	39,973	33,938
Total assets	1,394,535	1,152,062	1,010,456
Current liabilities	31,124	128,745	24,385
Long-term portion of bonds outstanding	996,675	755,750	761,590
Other Liabilities	302,590	208,608	163,655
Total liabilities	1,330,389	1,093,103	949,630
Net Assets			
Invested in capital assets, net of debt	18,486	17,958	13,722
Restricted	35,455	32,918	40,341
Unrestricted	10,205	8,083	6,763
Total net assets	$ 64,146	$ 58,959	$ 60,826
Condensed information from Statement of Revenue, Expenses and Changes in Net Assets			
Operating revenues	$ 18,073	$ 14,806	$ 13,198
Operating expenses	(13,550)	(12,838)	(11,879)
Operating income	4,523	1,968	1,319
Non-operating (expenses) income and other changes in net assets	664	(3,835)	(12,764)
Change in net assets	$ 5,187	$ (1,867)	$ (11,445)

Investment Management Activities

During the current year, the Authority (i) managed the assets of five outstanding bond series, and (ii) managed the assets of three defeased bond series.

Investments under management for fiscal years 2004, 2003 and 2002 were as follows:

	Restricted and Pooled Investments (in thousands)		
	2004	**2003**	**2002**
Outstanding bond series	$ 268,270	$ 168,962	$ 123,809
Defeased bond series	18,889	22,606	25,926
Depository Trust	-	-	11,979
Investments under management	$ 287,159	$ 191,568	$ 161,714

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		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
Operating Revenues	$12,381,032	$9,949,937	$9,995,454	$ 555,241	$ 1,038,906	$ 1,119,547
Operating Expenses	(8,948,904)	(7,392,533)	(7,354,222)	(909,081)	(1,738,120)	(1,674,172)
Operating Income (Loss)	3,432,128	2,557,404	2,641,232	(353,840)	(699,214)	(554,625)
Nonoperating Revenues	97,904	375,536	220,016	2,535,037	10,329	15
Nonoperating Expenses	(2,980,839)	(2,039,385)	(2,617,082)			2,593,729
Nonoperating Revenue (expenses)	(2,882,935)	(1,663,849)	(2,397,066)	2,535,037	10,329	2,593,744
Change in Net Assets	$ 549,193	$ 893,555	$ 244,166	$2,181,197	$ (688,885)	$ 2,039,119

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 2004 compared to fiscal year 2003 due to an increase in revenues generated from an increase in fees from cruise ships and increased during fiscal year 2003 compared to fiscal year 2002 due to reduction in operating expenses.

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 decreased during fiscal year 2004 compared to fiscal year 2003 and increased in fiscal year 2003 compared to fiscal year 2002. This was due to a) Funds transferred by the authority and b) reduction in operations during the renovation of the hotel facilities.

Debt Administration

At year end, the Authority had approximately $1.024 billion in bonds outstanding as follows:

	Bonds Outstanding 9/30/2002	(in thousands) New Issuances	Debt Payments	Bonds Outstanding 9/30/2003	(in thousands) New Issuances	Debt Payments	Bonds Outstanding 9/30/2004
2003 Series	$ -	$ -	$ -	$ -	268,020	$ -	268,020
2002 Series	-	20,845	(2,200)	18,645	-	(2,805)	15,840
1999 Series	287,875	-	(4,540)	283,335	-	(4,765)	278,570
1998 Series	486,970	-	(13,225)	473,745	-	(13,955)	459,790
Y2K Series	7,295	-	(2,785)	4,510	-	(2,960)	1,550
Total	$ 782,140	$ -	$ (22,750)	$ 780,235	$ 268,020	$ (24,485)	$ 1,023,770

Defeased bonds outstanding from prior years amounted to $160 million (1989 Series) ($165 million in 2003 and 172 million in 2002) and $181 million (1994, 1993, 1992 and 1991 series) ($192 million in 2003 and 204 million in 2002) at year end.

Loans outstanding were as follows:

	Loans Outstanding 9/30/2002	(in thousands) New Issuances	Debt Payments	Loans Outstanding 9/30/2003	(in thousands) New Issuances	Debt Payments	Loans Outstanding 9/30/2004
Bond Anticipation	$ -	$ 100,000		$ 100,000		$ (100,000)	$ -
WICO	20,323	22,500	(20,808)	22,015		(639)	21,376
Total	$ 20,323	$ 122,500	$ (20,808)	$ 122,015	$ -	$ (100,639)	$ 21,376

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, 2004	2003	2002
	(in thousands)		
Excise rum tax:	$ 40,452	$ 40,402	$ 40,397
Gross receipts tax:	$ 32,847	$ 22,358	$ 22,358

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)
Statements of Net Assets
September 30, 2004 and 2003

	2004	2003
ASSETS		
Current assets		
Cash and cash equivalents	$ 21,336,214	$ 13,802,943
Receivables, net	1,190,949	1,888,613
Loans receivable - Government of the Virgin Islands	27,095,000	124,481,322
Prepaid expenes and other assets	963,175	3,539,101
Total current assets	50,585,338	143,711,979
Noncurrent assets		
Restricted cash and cash equivalents	51,942,490	1,737,930
Restricted investments	245,426,187	198,563,367
Loan receivable - Government of the Virgin Islands	996,671,322	755,750,000
Bond discount and issuance costs	10,047,717	12,325,532
Capital assets, net of depreciation	39,862,199	39,973,326
Total noncurrent assets	1,343,949,915	1,008,350,155
Total assets	1,394,535,253	1,152,062,134
LIABILITIES		
Current liabilities		
Accrued expenses	3,410,051	3,525,568
Loans payable other	-	100,000,000
Loans payable related to capital assets	813,140	734,813
Bonds payable	27,095,000	24,485,000
Total current liabilities	31,318,191	128,745,381
Noncurrent liabilities		
Loans payable related to capital assets	20,562,492	21,280,208
Bonds payable (including a reduction of $2,464,129 and $3,080,149 in 2004 and 2003 due to a deferred amount on defeased bonds)	994,210,871	752,669,851
Restricted assets held for the Government of the Virgin Islands	180,978,418	96,590,672
Deferred income	968,572	1,162,286
Payable from restricted assets	102,350,518	92,654,609
Total noncurrent liabilities	1,299,070,871	964,357,626
Total liabilities	1,330,389,062	1,093,103,007
NET ASSETS		
Invested in capital assets, net of related debt	18,486,567	17,958,305
Restricted	35,455,003	32,917,916
Unrestricted	10,204,621	8,082,906
Total net assets	$ 64,146,191	$ 58,959,127

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 Revenues, Expenses and Changes in Net Assets
Years ended September 30, 2004 and 2003

	2004	2003
OPERATING REVENUES		
Charges for services	$ 14,936,273	$ 12,988,843
Other	3,136,906	1,817,227
Total operating revenues	18,073,179	14,806,070
OPERATING EXPENSES		
General and administrative	11,859,764	11,360,425
Depreciation	1,690,386	1,477,450
Total operating expenses	13,550,150	12,837,875
Operating income	4,523,029	1,968,195
NON-OPERATING REVENUES (EXPENSES)		
Interest income		
Cash and Investments	5,544,653	5,637,084
Loans receivable	56,542,582	46,406,130
Other investment income	233,791	193,714
Amortization of bond discount and issuance costs	(1,910,907)	(1,250,721)
Interest expense	(57,523,136)	(47,958,625)
Gain on disposition of fixed assets	2,921	217,989
Total non-operating revenues, net	2,889,904	3,245,571
Income before transfer	7,412,933	5,213,766
TRANSFERS		
Operating transfer from/to Government of the Virgin Islands	1,410,295	(2,000,000)
In lieu of taxes	(1,000,000)	(1,000,000)
Payments on behalf of Government of the Virgin Islands	(2,636,164)	(4,081,263)
Total transfer	(2,225,869)	(7,081,263)
Change in net assets	5,187,064	(1,867,497)
Total net assets at beginning of fiscal year	58,959,127	60,826,624
Total net assets at ending of fiscal year	$ 64,146,191	$ 58,959,127

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, 2004 and 2003

	2004	2003
Cash flows from operating activities		
Cash received from customers	$ 14,936,274	$ 12,842,149
Cash paid to suppliers and employees for services	(10,286,166)	(10,360,787)
Other cash receipts	3,136,906	1,817,227
Net cash provided by operating activities	7,787,014	4,298,589
Cash flows from investing activities		
Purchases of investments	(96,203,294)	(217,897,170)
Interest received on investments	5,428,095	5,680,723
Investment maturities and sales	39,031,288	159,351,630
Net cash (used in) investing activities	(51,743,911)	(52,864,817)
Cash flows from capital and related financing activities		
Proceeds from long-term debt issuance	268,020,000	29,962,000
Proceeds from loans payable related to capital assets	-	22,500,000
Acquisition of property and equipment	(2,047,034)	(5,853,666)
Interest payment on loans payable related to capital assets	(1,011,797)	(1,039,446)
Principal payments on loans payable related to capital assets	(100,608,432)	(20,808,508)
Net cash provided by capital and related financing activities	164,352,737	24,760,380
Cash flows from non-capital financing activities		
In lieu of taxes paid	1,000,000	(500,000)
Interest paid on bonds payable	(56,612,767)	(46,303,222)
Interest collected on loans receivable	56,613,052	46,305,150
Payment of bond issuance costs	(2,367,118)	(2,652,645)
Proceeds from loan note	-	100,000,000
Decrease in loan receivable	124,489,215	22,783,904
Principal payments on bonds payable	(24,485,000)	(22,750,000)
Payments on behalf of Government of the Virgin Islands	(168,060,891)	(88,322,306)
Increase in other non-operating assets	6,765,500	(2,662,621)
Net cash provided by(used in) non-capital financing activities	(62,658,009)	5,898,260
Net increase (decrease) in cash and restricted cash	57,737,831	(17,907,588)
Cash and restricted cash at beginning of year	15,540,873	33,448,461
Cash and restricted cash at end of year	$ 73,278,704	$ 15,540,873

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

(continued)

	2004	2003
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 4,523,029	$ 1,968,195
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	1,690,386	1,477,450
Provision for bad debts		21,000
Proceeds from sale of fixed assets	-	217,989
Changes in operating assets and liabilities that increase (decrease) cash		
Receivables	17,490	(201,444)
Accrued expenses and other liabilities	513,710	556,255
Prepaid expenses and other assets	1,042,399	259,144
Total adjustments	3,263,985	2,330,394
Net cash provided by operating activities	$ 7,787,014	$ 4,298,589

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 the end of fiscal year 2004, 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.

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:

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

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

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) 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.

During 2004, the Authority charged the Government of the Virgin Islands and other entities under the private activity bond program, fees amounting to $5,136,906 ($3,817,227 for 2003) 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 period ended September 30, 2004, capital expenditures of $1.4 million were disbursed from the restricted investments related to the 1992 Revenue and 1994 Revenue bonds, and $4.2 million 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. 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:

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

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.

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.

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 have fair values 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.

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 impact of the adoption of this statement has not been determined by management.

2. Cash, Cash Equivalents and Investments

As of September 30, 2004, 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 1	Category 2	Category 3	Bank Balance	Carrying Amount
2004					
Restricted	$ 100,000	$ -	$ 51,882,691	$ 51,982,691	$ 51,942,490
Unrestricted	302,081	-	19,074,332	19,376,413	21,336,214
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

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 2003 Bonds Series A, 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 project funds for the defeased bonds.

Investments in the reserve accounts at September 30, 2004 were as follows:

	2003 Series A Revenue Bonds	2002 Series Revenue Bonds	1999 Series A Revenue Bonds	1998 Bonds Series A, B, C, D & E	Total
Restricted					
Debt service reserve	$ 16,603,732	$ 2,391,215	$ 25,856,405	$ 77,596,643	$ 122,447,995
Construction Funds	105,528,785	9,407,108	-	-	114,935,893
Project Fund	-	-	8,042,299	-	8,042,299
	$ 122,132,517	$ 11,798,323	$ 33,898,704	$ 77,596,643	$ 245,426,187

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

Restricted	Bond Anticipation Note	Series Revenue Bonds	1999 Bond Series	Bonds Series A, B, C, D & E	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

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, of Category 1, as of September 30, consist of:

	2004	2003
Commercial Paper	$ 80,929,811	$ 66,949,321
Federal Home Loan Bank Notes	2,242,429	-
Money Market Fund	162,253,947	131,614,046
	$ 245,426,187	$ 198,563,367

3. Loans Receivable

The Authority loaned the proceeds of the 2003 Revenue Bonds Series A 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 5).

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 5).

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 6).

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 5).

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 5).

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. Capital Assets

Capital assets at September 30, 2004 and 2003 and changes during both fiscal years follows:

	Balance 9/30/02	Additions Net of transfers	Disposal	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

	Balance 9/30/03	Additions Net of transfers	Disposal	Balance 9/30/04
Land	$ 5,020,006	$ -		$ 5,020,006
Construction in progress	721,801	87,138		808,939
Buildings and building improvements	40,873,570	1,084,428		41,957,998
Personal property and equipment	1,561,658	308,248		1,869,906
Total	48,177,035	1,479,814	-	49,656,849
Less accumulated depreciation	(8,203,709)	(1,590,941)		(9,794,650)
Total Capital Assets, net	$ 39,973,326	$ (111,127)	-	$ 39,862,199

5. Bonds Payable

On December 17, 2003, the Authority issued the Series 2003A Revenue Bonds the proceeds of which amounted to $268,020,020. These bonds are secured by a pledge of the Trust estate, which includes certain funds established under the Original Indenture, the Fourth Supplemental indenture and the 2003 Gross Receipts Taxes Loans Note, Series A issued by the Government. 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 bonds are limited special obligations of the Authority. The bonds were issued to: (i) repay the Authority's outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund the Debt Service Reserve Account, and (iv) pay certain costs of issuing the Series 2003A Bonds. The Series A Bonds are not subject to optional redemptions prior to October 1, 2014.

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, 2004, the Authority allocated $2 million for the Micro Loan Financing Program, and had expended $78 thousand of that amount at year end.

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, 2004, the swap had a negative fair value of $21,826,250 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 ("Garvey 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, 2004, $180,865,000 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, 2004, $159,890,000 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 Revenue 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 2003 Series A and the 1999 Series A Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

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) for the period ended September 30, 2004 and 2003 follows (in thousands):

	1998 Bonds	Y2K Project Revenue Bonds	1999 Series A Revenue Bonds	2002 Series Revenue Bonds	2003 Series A Revenue Bonds	Total
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
Bond Issuance	-	-	-	-	268,020	268,020
Principal payments	(13,955)	(2,960)	(4,765)	(2,805)		(24,485)
Balance at 09/30/04	$ 459,790	$ 1,550	$ 278,570	$ 15,840	$ 268,020	$ 1,023,770

Bonds payable are comprised of the following (in thousands):

	September 30, 2004	September 30, 2003
2003 Series A Revenue Bonds		
Interest at 4.00% to 5.25%	$ 268,020	$ -
2002 Series Revenue Bonds		
Interest at 2.50% to 5.00%	15,840	18,645
1998 Series A, B, C, D and E Revenue &		
Refunding Bonds Interest at 5.50% to 7.11%	459,790	473,745
1999 Y2K Project Revenue Bonds		
Interest at 6.25%	1,550	4,510
1999 Series A Revenue Bonds		
Interest at 4.20% to 6.50%	278,570	283,335
Total Bonds payable	1,023,770	780,235
Less: Current portion	(27,095)	(24,485)
Deferred amount on defeased bonds	(2,464)	(3,080)
Long-term portion of bonds payable	$ 994,211	$ 752,670

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

Interest on the 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 fiscal years ended September 30, 2004 and 2003 was as follows (in thousands):

	2004	2003
2003 Series A Revenue Bonds	$ 10,493	$ -
Y2K Bonds	190	484
2002 Series Revenue Bonds	847	826
1999 Series Bonds	17,589	17,816
1998 Revenue & Refunding Bonds	26,497	27,177
Total	$ 55,616	$ 46,303

Maturity dates and debt service requirements as of September 30, 2004 for the Series 2003 Revenue Bonds is as follows (in thousands):

	Series 2003 A		
October 1	Principal	Interest	Total
2005	$ 2,875	$ 13,301	$ 16,176
2006	2,990	13,186	16,176
2007	3,110	13,066	16,176
2008	3,230	12,942	16,172
2009	3,360	12,813	16,173
2010-2014	19,165	61,706	80,871
2015-2019	24,550	56,330	80,880
2020-2024	31,660	49,221	80,881
2025-2029	40,450	40,423	80,873
2030-2033	136,630	17,495	154,125
	$ 268,020	$ 290,483	$ 558,503

Maturity dates and debt service requirements as of September 30, 2004 for the Series 2002 Revenue Bonds is as follows (in thousands):

	SERIES 2002 BONDS		
October 1	Principal	Interest	Total
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	3,475	174	3,649
	$ 15,840	$ 2,406	$ 18,246

Maturity dates and debt service requirements as of September 30, 2004 for the Series 1999 A Revenue Bonds is as follows (in thousands):

		Series 1999 A	
October 1	**Principal**	**Interest**	**Total**
2005	$ 5,005	$ 17,351	$ 22,356
2006	5,285	17,070	22,355
2007	5,585	16,772	22,357
2008	5,900	16,458	22,358
2009	6,230	16,126	22,356
2010-2014	37,155	74,625	111,780
2015-2019	50,540	61,236	111,776
2020-2024	69,015	42,765	111,780
2025-2029	93,855	17,928	111,783
2030-2033	-	-	-
	$ 278,570	$ 280,331	$ 558,901

Maturity dates and debt service requirements as of September 30, 2004 for the 1998 bonds are as follows (in thousands):

	Series 1998 A		Series C		Series 1998 D	
October 1	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
					$ 4,210	$ 1,101
2005	$ -	$ 15,821	$ 10,555	$ 2,527	4,470	848
2006	-	15,821	11,150	1,946	4,750	580
2007	-	15,821	11,780	1,333	4,915	295
2008	-	15,821	12,455	685	-	-
2009	13,135	15,821	-	-	-	-
2010-2014	77,205	67,941	-	-	-	-
2015-2019	101,530	44,336	-	-	-	-
2020-2024	88,040	16,361	-	-	-	-
2025-2029	9,165	516	-	-		
	$ 289,075	$ 208,259	$ 45,940	$ 6,491	$ 18,345	$ 2,824

	Series 1998 E		Total 1998 Bonds		
October 1	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2005	$ -	$ 6,261	$ 14,765	$ 25,710	$ 40,475
2006	-	6,261	15,620	24,876	40,496
2007	-	6,261	16,530	23,995	40,525
2008	-	6,261	17,370	23,062	40,432
2009	5,345	6,261	18,480	22,082	40,562
2010-2014	31,715	26,312	108,920	94,253	203,173
2015-2019	41,940	15,933	143,470	60,269	203,739
2020-2024	27,430	3,266	115,470	19,627	135,097
2025-2029	-	-	9,165	516	9,681
	$ 106,430	$ 76,816	$ 459,790	$ 294,390	$ 754,180

Maturity dates and debt service requirements as of September 30, 2004 for the Y2K bond is as follows (in thousands):

January 1	Principal	Interest	Total
2005	$ 1,550	$ 48	$ 1,598

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

	Principal	Interest	Total
2005	$ 27,095	$ 57,159	$ 84,254
2006	26,895	55,779	82,674
2007	28,380	54,330	82,710
2008	29,810	52,801	82,611
2009	31,545	51,195	82,740
2010-2014	165,240	230,584	395,824
2015-2019	218,560	177,835	396,395
2020-2024	216,145	111,613	327,758
2025-2029	143,470	58,867	202,337
2030-2033	136,630	17,495	154,125
	$ 1,023,770	$ 867,658	$ 1,891,428

The 2003 Series A Bonds are not subject to optional redemption prior to October 1, 2014. 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 swap is exercised, 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:

2003 Series A	Price
October 1, 2014 and thereafter	100%

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 C and D are not redeemable at the option of the Authority.

6. Long-Term Loans

Long-term loans outstanding were as follows:

	Loans Outstanding 9/30/2002	(in thousands) New Issuances	Debt Payments	Loans Outstanding 9/30/2003	(in thousands) New Issuances	Debt Payments	Loans Outstanding 9/30/2004
Bond Anticipation	$ -	$ 100,000		$ 100,000		$ (100,000)	$ -
WICO	20,323	22,500	(20,808)	22,015		(639)	21,376
Total	$ 20,323	$ 122,500	$ (20,808)	$ 122,015	$ -	$ (100,639)	$ 21,376

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, 2004 and thereafter are as follows:

2005	$ 813,140
2006	851,803
2007	870,169
2008	879,076
2009	919,700
Thereafter	17,041,744
	21,375,632
Less-current portion	813,140
Total	$ 20,562,492

The Authority has pledged WICO revenues to the timely payment of principal and interest of the loan. Interest paid during the period ended September 30, 2004 amounted to $1.0 million for WICO.

7. 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:

2005	$ 45,000
2006	45,000
2007	55,000
2008	55,000
2009	55,000
2010-2014	320,000
2015-2016	148,125
Total future minimum payments	$ 723,125

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 amount to $187,000 during 2005.

8. Contingencies

The Authority has a loan receivable amounting to approximately $1,024 million ($882.6 million in 2003) 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 5 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the 2003, 2002, 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 producers relative to the rum producers in other countries in which local molasses supplies are readily available. The molasses subsidy is administered by the Commissioner of Finance through the establishment of a legislatively mandated Molasses Subsidy Fund. In the event of a deficiency in the Molasses Subsidy Fund, the Commissioner of Finance could seek legislative appropriation of additional funds, as required, from the Legislature of the Virgin Islands. The Legislature, however, is not obligated to appropriate such amounts.

Notwithstanding the Government's past financial difficulties, the Legislature of the Virgin Islands has not yet waived on or reduced the Molasses subsidy. If such an event should occur, we concede that the rum producer could experience a decrease in its operations, and thereforeresult 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. 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.

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 and a second extension was granted until May 31, 2005. Legislation entitled Surface Transportation Reauthorization Act (SAFETEA) is currently under review by Congress at the date of this report.

9. 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.

10. Subsequent Events

In December 2004, the Authority issued the Series 2004A Senior Lien Revenue Bonds amounting to $94 million. The bonds bear interest at 4.00% to 5.00% and mature from 2005 to 2014. 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 2004A Bonds will be used to: (i) finance the planning, development, constructing, renovating and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix (ii) finance the repairs, renovations and construction of solid waste facilities in the Territory of the United States Virgin Islands (the Territory) (iii) finance the repair and construction of public roads in the Territory (iv) provide start-up capital for the newly created VI Waste Management Authority (v) fund the Series 2004A Senior Lien Debt Service Reserve account in amount necessary to satisfy debt service requirements, and (vi) pay certain costs of issuing the Series 2004A Bonds. The Series A Bonds are not subject to optional redemption prior to October 1, 2014.

Virgin Islands Public Finance Authority
Statement of Net Assets
September 30, 2004

Description	Operating	The West Indian Company	King's Alley Management Inc.	Total From Activities	2003 Series A Revenue Bonds	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	Transportation Trust 1989 Series Bonds	Y2K	Total From Bond and Investment Management	Total
ASSETS															
Current Assets:															
Cash and cash equivalents	$ 13,470,442	$ 5,450,147	$ 2,415,625	$ 21,336,214	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,336,214
Receivables, net	33,750	1,090,643	66,556	1,190,949										-	1,190,949
Loan Receivable Government Dev Bank				-										-	-
Loan Receivable Government of the Virgin Islands				-	2,875,000	2,900,000		5,005,000	14,765,000				1,550,000	27,095,000	27,095,000
Prepaid Expenses and other assets	156,501	782,455		938,956									24,219	24,219	963,175
Total current assets	13,660,693	7,323,245	2,482,181	23,466,119	2,875,000	2,900,000	-	5,005,000	14,765,000	-	-	-	1,574,219	27,119,219	50,585,338
Noncurrent assets:															
Restricted cash and cash equivalents		1,764,956		1,764,956	19,006,983		8,444,710	33,898,704	1,585,743	5,661,205	3,297,998	9,930,219	2,250,676	84,076,238	85,841,194
Restricted Investments				-	122,132,517	11,798,323		273,565,000	77,596,643					485,092,482	485,092,482
Loan Receivable Government of the Virgin Islands				-	265,145,000	12,936,322		5,728,262	445,025,000					728,834,584	728,834,584
Bond Discount & Issuance Costs		436,898		436,898	-	77,765			3,804,792					3,882,557	4,319,455
Capital assets:														-	-
Land and improvements		5,020,006		5,020,006										-	5,020,006
Construction in progress		808,939		808,939										-	808,939
Buildings and building improvements		37,160,618	4,797,380	41,957,998										-	41,957,998
Personal Property and equipment		1,869,906		1,869,906										-	1,869,906
Less: accumulated depreciation		(9,238,216)	(556,434)	(9,794,650)										-	(9,794,650)
Total noncurrent assets	-	37,823,107	4,240,946	42,064,053	406,284,499	24,812,409	8,444,710	313,191,966	528,012,178	5,661,205	3,297,998	9,930,219	2,250,676	1,301,885,861	1,343,949,915
Total assets	$ 13,660,693	$ 45,146,352	$ 6,723,127	$ 65,530,172	$ 409,159,499	$ 27,712,409	$ 8,444,710	$ 318,196,966	$ 542,777,178	$ 5,661,205	$ 3,297,998	$ 9,930,219	$ 3,824,895	$ 1,329,005,080	$ 1,394,535,252
LIABILITIES															
Current Liabilities:															
Accrued expenses	$ 1,177,147	$ 1,990,079	$ 24,892	3,192,118	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 24,219	$ 24,219	$ 3,216,338
Loans Payable related to capital assets		813,140		813,140										-	813,140
Loans Payable Other				-										-	-
Bonds payable				-	2,875,000	2,900,000		5,005,000	14,765,000				1,550,000	27,095,000	27,095,000
Deferred Revenue				-										-	-
Due to (from) other PFA funds	(581,318)		736,186	154,868						96,485	(312,959)	61,606		(154,868)	-
Total current liabilities	595,829	2,803,219	761,078	4,160,126	2,875,000	2,900,000	-	5,005,000	14,765,000	96,485	(312,959)	61,606	1,574,219	26,964,351	31,124,477
Noncurrent liabilitites															
Loans Payable related to capital assets		20,562,492		20,562,492										-	20,562,492
Bonds Payable				-	265,145,000	12,940,000		273,565,000	445,025,000					996,675,000	996,675,000
Deferred amount on defeased bonds				-					(2,464,129)					(2,464,129)	(2,464,129)
Restricted assets held for GVI	2,290,673			2,290,673	124,535,768	9,407,571		10,219,978	28,235,950	94,094	6,194,384			178,687,745	180,978,418
Payable from restricted assets				-	16,603,732	2,390,751	8,324,605	19,974,662	53,816,781				1,239,987	102,350,519	102,350,519
Deferred Revenue				-				631,837	530,449					1,162,286	1,162,286
Total noncurrent liabilities	2,290,673	20,562,492	-	22,853,165	406,284,500	24,738,323	8,324,605	304,391,477	525,144,051	94,094	6,194,384	-	1,239,987	1,276,411,421	1,299,264,585
Total Liabilities	2,886,502	23,365,711	761,078	27,013,291	409,159,500	27,638,323	8,324,605	309,396,477	539,909,051	190,579	5,881,425	61,606	2,814,206	1,303,375,772	1,330,389,062
NET ASSETS															
Invested in capital assets, net of related debt		14,245,621	4,240,946	18,486,567											18,486,567
Restricted	2,290,673	7,535,020		9,825,693	-	74,088	120,105	8,800,489	2,868,127	5,470,626	(2,583,427)	9,868,613	1,010,689	25,629,310	35,455,003
Unrestricted	8,483,518		1,721,103	10,204,621										-	10,204,621
Total net assets	$ 10,774,191	$ 21,780,641	$ 5,962,049	$ 38,516,881	$ -	$ 74,088	$ 120,105	$ 8,800,489	$ 2,868,127	$ 5,470,626	$ (2,583,427)	$ 9,868,613	$ 1,010,689	$ 25,629,310	$ 64,146,191

Virgin Islands Public Finance Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the period ended September 30, 2004

Description	Operating	The West Indian Company	King's Alley Management Inc.	Total From Activities	2003 Series A Revenue Bonds	2003 Bond Anticipation 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
OPERATING REVENUES																	
Charges for services	$ 2,000,000	$ 12,381,032	$ 555,241	$ 14,936,273	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 14,936,273
Other operating revenues	3,136,906			3,136,906													3,136,906
Total operating revenues	5,136,906	12,381,032	555,241	18,073,179	-	-	-	-	-	-	-	-	-	-	-	-	18,073,179
OPERATING EXPENSES																	
General and administrative	3,682,231	7,483,914	683,685	11,849,829	-			210	-	236	1,226	2,842	-	5,327	93	9,934	11,859,763
Depreciation	-	1,464,990	225,396	1,690,386												-	1,690,386
Total operating expenses	3,682,231	8,948,904	909,081	13,540,216	-	-	-	210	-	236	1,226	2,842	-	5,327	93	9,934	13,550,150
Operating income(loss)	1,454,675	3,432,128	(353,840)	4,532,963	-	-	-	(210)	-	(236)	(1,226)	(2,842)	-	(5,327)	(93)	(9,934)	4,523,029
NONOPERATING REVENUES (EXPENSES)																	
Interest income:																	
Cash & Investments	318,095	94,983	35,036	448,114	26,993		216,610	89,259	1,795,258	2,664,466	83,596	50,660		134,431	35,266	5,096,539	5,544,653
Loans receivable					10,493,070	926,027	846,675		17,589,331	26,497,038			285		190,156	56,542,582	56,542,582
Other investment income						40,077			105,306	88,408						233,791	233,791
Interest expense		(980,839)		(980,839)	(10,493,070)	(926,027)	(846,675)		(17,589,331)	(26,497,038)					(190,156)	(56,542,297)	(57,523,136)
Amortization of bond discount/issuance costs					(26,993)	(28,626)	(232,163)		(568,092)	(439,013)						(1,294,887)	(1,294,887)
Amortization of deferred amount										(616,020)						(616,020)	(616,020)
Transfers (to) from Government of the Virgin Islands	(589,705)			(589,705)						2,000,000						2,000,000 00	1,410,295
Dividends received	1,000,000	(1,000,000)		-												-	-
Operating allotment				-						-						-	-
Intrafund transfers	161,706		2,500,000	2,661,706						(68,995)	-	(2,592,711)		-	-	(2,661,706)	-
Gain on sale of fixed assets		2,921		2,921													2,921
In lieu of taxes		(1,000,000)		(1,000,000)												-	(1,000,000)
Payments on behalf of GVI	-			-						(1,703,277)	(932,887)					(2,636,164)	(2,636,164)
Total nonoperating revenue(expenses)	890,095	(2,882,935)	2,535,036	542,197	-	11,451	(15,553)	89,259	1,332,472	1,925,569	(849,291)	(2,542,051)	285	134,431	35,266	121,838	664,034
Income(loss) before contributions and transfers	2,344,771	549,193	2,181,196	5,075,160	-	11,451	(15,553)	89,049	1,332,472	1,925,333	(850,517)	(2,544,893)	285	129,104	35,173	111,904	5,187,064
Change in net assets	2,344,771	549,193	2,181,196	5,075,160	-	11,451	(15,553)	89,049	1,332,472	1,925,333	(850,517)	(2,544,893)	285	129,104	35,173	111,904	5,187,064
Total net assets-beginning (as restated)	8,429,420	21,231,448	3,780,853	33,441,721	-	(11,451)	89,641	31,056	7,468,017	942,794	6,321,143	(38,534)	(285)	9,739,509	975,516	25,517,406	58,959,127
Total net assets-ending	$ 10,774,191	$ 21,780,641	$ 5,962,049	$ 38,516,881	$ -	-	$ 74,088	$ 120,105	$ 8,800,489	$ 2,868,127	$ 5,470,626	$ (2,583,427)	-	$ 9,868,613	$ 1,010,689	$ 25,629,310	$ 64,146,193