GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Audited Financial Statements
Year Ended September 30, 2006
With Report of Independent Auditors

Ernst & Young

Government of the United States Virgin Islands

Audited Financial Statements

Year Ended September 30, 2006

Contents

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Report of Independent Auditors

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2006, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units:

- The Virgin Islands Public Finance Authority (PFA), a blended component unit, which represents 100% of the assets, fund balance, and revenue of the PFA Debt Service Fund (a major fund); 100% of the assets, fund balance, and revenue of the PFA Capital Projects Fund (a major fund); 100% of the assets, net assets, and revenue of the West Indian Company (a major fund); 1.94%, 2.03% and 0.66% of the assets, net assets/fund, and revenue of the aggregate remaining fund information; 88.44% and 1.03% of the assets and revenues of the governmental activities; 54.63%, 41.97%, and 22.45% of the assets, net assets, and revenue of the business-type activities, respectively. The PFA net assets represent $34.6 million of the $89.8 million net deficit of the governmental activities.

- The Virgin Islands Lottery (VI Lottery), a nonmajor enterprise fund, which represents 0.22% and 4.85%, respectively, of the assets and revenues of the aggregate remaining fund information, and 4.22% and 33.54%, respectively, of the assets and revenue of the business-type activities. The VI Lottery net deficit represents $1.6 million of the $1,554.6 million net assets/fund balance and $75.4 million of the aggregate remaining fund information and business-type activities, respectively.

- The Tobacco Settlement Financing Corporation, a blended component unit, which represents 0.59%, 0.72%, and 0.28%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information, and 0.78% and 0.11%, respectively, of the assets and revenue of the governmental activities. The Tobacco Settlement Financing Corporation net assets represent $2.5 million of the $89.8 million net deficit of the governmental activities.

- The Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 93.14%, 95.03%, and 28.40%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information.

- The Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System, Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority, Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), the Virgin Islands Housing Finance Authority (VIHFA), and the Waste Management Authority, discretely presented component units, which collectively represent 26.25%, 28.39%, and 17.69%, respectively, of the assets, net assets, and revenue of the aggregate discretely presented component units.

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

Except as discussed in the following five paragraphs, we conducted our audit 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. We were not engaged to perform an audit of the Government's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audit and the reports of other auditors provide a reasonable basis for our opinions.

The report of other auditors on the 2006 financial statements of the VIHFA, a discretely presented component unit, was qualified because they were unable to obtain sufficient audit evidence to determine whether land held for sale amounting to $25 million was fairly stated.

The report of other auditors on the 2006 financial statements of VIEDA, a discretely presented component unit, was qualified because they were unable to obtain sufficient audit evidence to determine whether loans receivable of $2.1 million were fairly stated.

The report of other auditors on the 2006 financial statements of the Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), was qualified because GERS maintains investments in a limited partnership valued at $51 million, whose fair value has been estimated in the absence of a readily determinable fair value. GERS' estimate is based on information provided by the general partner of the limited partnership. The effect on the financial statements as a result of GERS' inability to document its procedures for determining fair value of the investment is not determinable. In addition, GERS maintains its real estate investment in the GERS complex related to the St. Thomas building held for lease based on historical cost. As of September 30, 2006, this real estate investment amounted to approximately $18.6 million. Such investment should be presented at fair value in accordance with U.S. generally accepted accounting principles. In addition, GERS' real estate investment in Havensight Mall is also based on historical cost, less accumulated depreciation. As of September 30, 2006, this real estate investment amounted to $60.5 million. Such investment should be presented at fair value in accordance with U.S. generally accepted accounting principles. Finally, GERS did not maintain requisite documentation to support the cash overdraft balance with the Government stated at $10.5 million as of September 30, 2006.

The report of other auditors on the 2006 financial statements of the VI Lottery, a nonmajor enterprise fund, was qualified because they were unable to obtain sufficient audit evidence to determine whether capital assets of $305 thousand, accounts receivable of $1 million, and due to the general fund of $4.5 million were fairly stated.

The basic financial statements do not include a liability for workers' compensation claims and, accordingly, the Government has also not recorded an expense for the current period change in that liability. The Government's records do not permit, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities and aggregate remaining fund information as of and for the year ended September 30, 2006 may have been affected by this condition.

Because of the matters discussed in the preceding two paragraphs of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position of the business-type activities and aggregate remaining fund information as of September 30, 2006 and the changes in financial position for the year then ended.

In our opinion, based on the report of other auditors, except for:

- The effect of the adjustments, if any, as might be determined to be necessary, had the other auditors been able to obtain sufficient audit evidence to determine whether 1) land held for sale amounting to $25 million in the financial statements of VIHFA and 2) loan receivables $2.1 million in the financial statements of VIEDA, were fairly stated as described in paragraphs four and five above, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the Government of the United States Virgin Islands, as of September 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Finally, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Government of the United States Virgin Islands, as of September 30, 2006, and the respective changes in financial position and respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As described more fully in Note 15 to the financial statements, as of October 1, 2005, the fund balance/net assets of the general fund, unemployment insurance fund, other nonmajor enterprise funds, governmental activities, and business-type activities were restated by $62.9 million, $2.2 million, $8.4 million, $13.8 million, and $10.6 million, respectively.

The management's discussion and analysis in pages 6 through 17 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We and the other auditors 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.

Ernst & Young LLP

March 16, 2009

Introduction

The following discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2006 and 2005.

Government-wide Financial Statements

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

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

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

> ***Governmental Activities*** – The activities in this section are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the primary government (PG) fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.
>
> ***Business-Type Activities*** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the (i) unemployment insurance program and (ii) the West Indian Company (WICO). Both of these programs operate with minimal assistance from the governmental activities of the Government.
>
> ***Discretely Presented Component Units*** – These are operations for which the Government has financial accountability even though they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The Government's discretely presented component units are presented in two categories, major and nonmajor. This separation is determined by the relative size of the entities' assets, liabilities, revenue, and expenses in relation to the total of all component units.

Fund Financial Statements

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

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

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

Governmental Funds

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the PG's general governmental operations and the basic services it provides. The reconciliation following the fund financial statements explains the differences between the governmental activities, reported in the government-wide financial statements, and the governmental funds' financial statements. The General Fund, the PFA Debt Service, and the PFA Capital Projects Fund are reported as major governmental funds.

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

The PFA Debt Service accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by the Virgin Islands Public Finance Authority (PFA) on behalf of the Government.

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

Proprietary Funds

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

The unemployment insurance fund and the West Indian Company (WICO) fund are major proprietary funds.

The unemployment insurance fund is a federally mandated program to manage unemployment insurance.

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

Fiduciary Funds

The Government is the trustee, or fiduciary, for several agency funds.

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

Financial Analysis of the Government as a Whole

The PG and its component units experienced an economic downturn following the slowdown of the U.S. economy in fiscal year 2002 and the events of September 11, 2001. As explained in note 14 to the basic financial statements, the Government initiated specific actions to improve its future cash flows through the issuance of long-term debt, the development of a series of detailed revenue enhancement and expenditure reduction initiatives, and the enactment of certain laws directed toward improving the Government's financial situation.

In fiscal year 2006, the Government issued the 2006 Series A Tobacco Settlement Asset-Backed Capital Appreciation Bonds amounting to $48.1 million with an issue value of $7.3 million net of accretion of $40.8 million for the purpose of financing several capital, hospital and health development projects. Also issued in 2006 were the 2006 Series A Revenue Bonds and the 2006 Series Revenue Notes. The 2006 Series A Revenue Bonds amounting to $219.49 million were issued for the purpose of advance refunding the 1999 Series A bonds and funding capital projects of the PG. The 2006 Series Note in the amount of $4 million were issued to finance the purchase of fire equipment, train fire fighters and make renovations and repairs to the territories fire stations. In fiscal year 2005, the Government issued the 2004 Series A Bonds amounting to $94 million to fund wastewater treatment and solid waste capital projects of the PG; and the Series 2005 Subordinate Lien Revenue Notes amounting to $6.35 million to finance the acquisition of a fleet of vehicles for the police department.

Financial Analysis of the Primary Government

Total assets of the government as of September 30, 2006 and 2005 were $1.833 billion and $1.712 billion, respectively, an increase of approximately $121 million. Total liabilities as of September 30, 2006 and 2005 were $1.847 billion and $1.852 billion, respectively, a decrease of approximately $5 million.

For the year ended September 30, 2006, the PG net deficit of $14 million consisted of $136 million invested in capital assets, net of related debt; $169 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $319 million. For the year ended September 30, 2005, the PG net asset deficit of $141 million consisted of $158 million invested in capital assets, net of related debt; $317 million restricted by statute or other legal requirements and were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $624 million.

For the fiscal year ended September 30, 2006, the PG earned program and general revenue amounting to $1.181 billion, and reported expenses of $1.055 billion, resulting in a decrease in the net deficit of $126 million. For the fiscal year ended September 30, 2005, the PG earned program and general revenue amounting to $1.116 billion, and reported expenses of $981 million, resulting in a decrease in the net deficit of $135 million.

Overall, revenue increased of approximately $65 million in fiscal year 2006, when compared to fiscal year 2005. Expenses increased in fiscal year 2006 when compared to fiscal year 2005 by $75.4 million. A summary of net assets (deficit) and changes in net assets (deficit) for the primary government follows:

Net Assets (Deficit) – Primary Government

September 30, 2006 and 2005
(In thousands)

	Governmental activities		Business-type activities		Total	
	2006	**2005**	**2006**	**2005**	**2006**	**2005**
		(As restated)		*(As restated)*		*(As restated)*
Assets						
Current assets	**$ 1,065,638**	$ 1,012,438	**$ 55,188**	$ 50,422	**$ 1,120,826**	$ 1,062,860
Capital assets	**639,669**	587,902	**46,295**	43,823	**685,964**	631,725
Other assets	**25,337**	16,545	**377**	407	**25,714**	16,952
Total assets	**1,730,644**	1,616,885	**101,860**	94,652	**1,832,504**	1,711,537
Liabilities						
Long-term debt outstanding	**1,175,118**	1,143,194	**20,719**	20,545	**1,195,837**	1,163,739
Other liabilities	**645,412**	679,791	**5,687**	8,682	**651,099**	688,473
Total liabilities	**1,820,530**	1,822,985	**26,406**	29,227	**1,846,936**	1,852,212
Net Assets						
Invested in capital assets, net of related debt	**110,094**	134,513	**25,576**	23,278	**135,670**	157,791
Restricted	**130,141**	282,898	**38,920**	33,998	**169,061**	316,896
Unrestricted (deficit)	**(330,111)**	(623,511)	**10,958**	8,149	**(319,153)**	(615,362)
Total net assets (deficit)	**$ (89,876)**	$ (206,100)	**$ 75,454**	$ 65,425	**$ (14,422)**	$ (140,675)

Changes in Net Assets (Deficit) – Primary Government

September 30, 2006 and 2005

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenue:						
Charges for services	**$ 33,687**	$ 31,110	**$ 53,067**	$ 48,895	**$ 86,754**	$ 80,005
Operating grants and contributions	**146,448**	170,963	**–**	–	**146,448**	170,963
General revenue:						
Taxes	**872,108**	789,122	**–**	–	**872,108**	789,122
Interest and other	**72,984**	72,596	**2,076**	2,427	**75,060**	75,023
Other general revenue	**973**	1,094	**–**	–	**973**	1,094
Total revenue	**1,126,200**	1,064,885	**55,143**	51,322	**1,181,343**	1,116,207
Expenses:						
General government	**414,306**	371,052	**–**	–	**414,306**	371,052
Public safety	**58,220**	54,101	**–**	–	**58,220**	54,101
Health	**109,271**	99,681	**–**	–	**109,271**	99,681
Public housing and welfare	**70,736**	67,228	**–**	–	**70,736**	67,228
Education	**196,395**	205,419	**–**	–	**196,395**	205,419
Transportation and communication	**60,700**	63,109	**–**	–	**60,700**	63,109
Culture and recreation	**6,852**	9,879	**–**	–	**6,852**	9,879
Termination of swaption fee	**26,910**	–	**–**	–	**26,910**	–
Interest on long-term debt	**61,648**	61,996	**–**	–	**61,648**	61,996
Unemployment insurance	**–**	–	**5,151**	7,568	**5,151**	7,568
West Indian Company	**–**	–	**9,638**	9,763	**9,638**	9,763
Workmen's Compensation	**–**	–	**9,121**	9,112	**9,121**	9,112
VI Lottery	**–**	–	**15,708**	10,733	**15,708**	10,733
Other business-type activities	**–**	–	**10,434**	11,732	**10,434**	11,732
Total expenses	**1,005,038**	932,465	**50,052**	48,908	**1,055,090**	981,373
Increase (decrease) in net assets before transfers	**121,162**	132,420	**5,091**	2,414	**126,253**	134,834
Transfers	**(4,938)**	3,528	**4,938**	(3,528)	**–**	–
	(4,938)	3,528	**4,938**	(3,528)	**–**	–
Change in net assets	**116,224**	135,948	**10,029**	(1,114)	**126,253**	134,834
Net assets (deficit), beginning of year	**(206,100)**	(342,048)	**65,425**	66,539	**(140,675)**	(275,509)
Net assets (deficit), end of year, as restated in 2005	**$ (89,876)**	$ (206,100)	**$ 75,454**	$ 65,425	**$ (14,422)**	$ (140,675)

The Virgin Islands Office of Management and Budget of the PG prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in Note 3 of the basic financial statements. A summary of the budgetary report for the General Fund of the PG, included on page 25 of the financial statements, follows:

Revenue and Expenditures – Budget and Actual –
Budgetary Basis – General Fund

Year Ended September 30, 2006
(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Total revenue	$ 523,448	$ 523,448	$ 664,207	$ 140,759
Total expenditures	667,859	741,677	665,890	75,787
Excess of expenditures over revenue	(144,411)	(218,229)	(1,683)	216,546
Other financing sources	73,633	73,433	98,296	24,863
Efficiency of revenue and other financing sources under expenditures	$ (70,778)	$ (144,796)	$ 96,613	$ 241,409

For fiscal year 2006, the PG realized a revenue variance $141 million due to an increase in the collection of certain tax revenues. The PG realized a $74 million variance in expenditures due to controlled spending. The PG realized a $24 million variance in other financing sources due to the fact that transfers to the General Fund were higher than budgetary estimates.

Capital Assets

Capital assets additions during fiscal year 2006 amounted to $70.9 million for governmental activities, and $4.6 million for business-type activities.

The Government's capital assets include land, land improvements, buildings, building improvements, machinery, equipment, infrastructure, and construction in progress as follows:

Capital Assets – Primary Government

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2006	**2005** *(As restated)*	**2006**	**2005** *(As restated)*	**2006**	**2005** *(As restated)*
Land and improvements	**$ 175,513**	$ 175,446	**$ 5,317**	$ 5,317	**$ 180,830**	$ 180,763
Building and improvements	**337,774**	334,363	**49,638**	49,137	**387,412**	383,500
Machinery and equipment	**67,710**	59,133	**4,619**	4,376	**72,329**	63,509
Infrastructure	**133,776**	127,471	**–**	–	**133,776**	127,471
Construction in progress	**99,688**	47,431	**5,600**	1,757	**105,288**	49,188
Total assets	**814,461**	743,844	**65,174**	60,587	**879,635**	804,431
Less accumulated depreciation	**(174,792)**	(155,942)	**(18,879)**	(17,064)	**(193,671)**	(173,006)
Total capital assets	**$ 639,669**	$ 587,902	**$ 46,295**	$ 43,523	**$ 685,964**	$ 631,425

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

Debt Administration

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2006:

Primary Government – Bonds Payable

(In thousands)

Bonds Payable	Final Maturity	Interest Rates (%)	Balance
1998 Series A, C, D, and E Revenue and Refunding Bonds	2025	5.50 to 7.11	$ 445,025
1999 Series A General Obligation Bonds	2010	6.50	3,820
1999 Series A Revenue Bonds	2033	4.20 to 6.50	110,695
2001 Series A Tobacco Bonds	2031	5.00	21,665
2002 Series Garvee Bonds	2009	2.50 to 5.00	9,940
2003 Series A Revenue Bonds	2033	4.00 to 5.25	265,145
2004 Series A Revenue Bonds	2024	4.00 to 5.25	91,705
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2006 Series A Revenue Bonds	2029	3.50 - 5.00	219,490
Subtotal			1,174,775
Deferred amount on refundings			(18,605)
Bond premium			19,058
Bond discount			(7,508)
Bond accretion			(190)
Total			$ 1,167,530

Note 10 provides detailed information regarding all bonds of the U.S. Virgin Islands.

During fiscal year 2006, the 2006 Series A Revenue Bonds amounting to $219.5 million; the 2006 Series Note amounting to $4 million and the 2006 Series A Tobacco Settlement Asset-Backed Bonds with an issue value of $7.3 million amounting to $48 million were issued.

During fiscal year 2005, the 2004 Series A Revenue Bonds amounting to $94 million were issued.

The PG made bond principal payments on all outstanding general and special revenue bonds amounting to $192 million during fiscal year 2006, and $24.4 million during fiscal year 2005.

The Government's bonds carry insured ratings of "AAA" and "Aaa" from Fitch Ratings and Moody's Investors Services, respectively. Ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained from the respective rating agency.

Other liabilities of the PG include:

Primary Government – Other Liabilities

September 30, 2006 and 2005

(In millions)

	2006	**2005** *(As restated)*
Accrued compensated absences	**$ 44**	$ 48
Retroactive union arbitration liability	**284**	276
Accrued litigation	**16**	23
Landfill closure and post closure costs	**33**	29
Total other liabilities	**$ 377**	$ 376

Economic Condition and Outlook

The PG ended fiscal year 2006 with a deficit amounting to $28.9 million, of which $334 million relates to an unrestricted deficit. The PG is working towards a recovery from the recession of 2002 through a combination of revenue initiatives and budgetary restraint on expenditures.

Revenue Initiatives

The PG collects income tax revenue under the "mirror" income tax system. The Government's tax laws mirror the U.S. Internal Revenue Service (IRS) Code, Rules, and Regulations. The 2003 and 2004 Tax Acts passed by U.S. Congress may have a negative impact on revenue due to changes in sourcing of revenue rules as defined for the U.S. Virgin Islands, restrictions on residency rules, a decrease in tax rates, expanded tax credits, and expanded tax deductions. In January 2006, the U.S. Treasury issued final tax regulations for the territories and possessions defining residency and source of income. The Government has responded to these changes through meetings with the U.S. Treasury and the final regulations on residency were subsequently revised in November 2006.

In connection with a real property tax case instituted against the PG in the U.S. District Court of the Virgin Islands, the Government was enjoined for a four-month period in fiscal year 2003 from appraising and assessing any real property taxes until it modified its system of appraisal to comply with certain court mandates. As a result, effective August 2003, it has been using the 1998 assessment value to issue tax bills and collect taxes, and expects to continue to do so until a new appraisal system is implemented, which is intended to satisfy the court's decision, or the decision is reversed on appeal. In fiscal year 2004, the Government retained a consultant to modify its system of appraisal and to comply with the court mandates. In fiscal year 2006, legislation was introduced to Congress to move the control of property tax assessments from the federal government to the Government of the Virgin Islands.

The Government is currently in litigation challenging the computation of its corporate franchise tax. Of the four cases brought against the Government, one is currently before the Virgin Islands Territorial Court, and the remaining three cases are currently on appeal.

Budgetary Control of Expenditures

The PG faces the challenge of carryforward expenditures from prior fiscal years and increasing expenditures in the current fiscal year. Carryforward expenditures consist mainly of retroactive salary increases, which accumulated following Hurricanes Hugo, Marilyn and Bertha in the years of 1990 through 1998. At September 30, 2006 and 2005, unpaid retroactive salary increases amounted to $284 million and $276 million, respectively, which are reported as a liability of the Government within other noncurrent liabilities.

Current increasing governmental expenditures include increased health insurance premiums, pharmaceutical premiums, and salary expense. Expenditures are closely monitored and controlled through the budgetary process.

Deficit Reduction Measures

The PG has implemented a number of deficit reducing measures including: (i) withholding of local taxes on Government invoice payments, (ii) increasing local taxes such as the highway users tax and stamp tax; (iii) implementation of new local taxes including an excise tax on importation of personal goods and a petroleum tax; and (iv) exerting greater control of expenditures through the budgetary process, and (v) implementation of tax amnesties for property and gross receipts taxes.

These initiatives have been successful in reducing the PG deficit from $153 million for fiscal year 2002, to $29 million for fiscal year 2006, a reduction of $124 million.

Contacting the Government's Financial Management

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

Government of the United States Virgin Islands

Statement of Net Assets (Deficit)

September 30, 2006
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 160,719	$ 23,452	$ 184,171	$ 59,101
Investments	602,793	1,010	603,803	40,175
Receivables, net	263,146	3,953	267,099	61,250
Internal balances	6,522	(6,522)	–	–
Loans and advances	–	–	–	79
Due from component units, net	2,879	–	2,879	–
Note receivable	–	–	–	8,384
Due from primary government	–	–	–	4,482
Due from federal government	27,994	–	27,994	7,844
Inventories	–	24	24	27,370
Other assets	1,584	902	2,486	40,414
Restricted:				
Cash and cash equivalents	–	32,369	32,369	41,775
Investments	–	–	–	72,758
Other	–	–	–	3
Capital assets	639,669	46,295	685,964	795,765
Deferred and other expenses	25,338	377	25,715	17,226
Total assets	1,730,644	101,860	1,832,504	1,176,626
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	80,099	3,521	83,620	101,088
Tax refunds payable	77,523	–	77,523	–
Unemployment insurance benefits	–	2,032	2,032	–
Customer deposits	–	–	–	18,238
Due to primary government	–	–	–	33,759
Due to component units	4,482	–	4,482	–
Due to federal government	–	–	–	7,382
Interest payable	30,286	–	30,286	4,954
Unearned revenue	88,430	134	88,564	4,467
Other current liabilities	1,277	–	1,277	15,773
Noncurrent liabilities:				
Due within one year:				
Loans payable	3,414	654	4,068	1,767
Bonds payable	29,612	–	29,612	10,975
Other liabilities	27,187	–	27,187	–
Due in more than one year:				
Loans payable	4,174	20,065	24,239	19,808
Bonds payable	1,137,918	–	1,137,918	265,842
Other liabilities	336,118	–	336,118	29,682
Total liabilities	1,820,520	26,406	1,846,926	513,735

(Continued)

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) (continued)

September 30, 2006
(In thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Net assets				
Invested in capital assets, net of related debt	110,094	25,576	135,670	560,273
Restricted for:				
Unemployment insurance	–	30,022	30,022	–
Debt service	130,141	–	130,141	–
Other purposes	–	8,898	8,898	92,535
Unrestricted (deficit)	(330,111)	10,958	(319,153)	10,383
Total net assets (deficit)	$ (89,876)	$ 75,454	$ (14,422)	$ 663,191

See accompanying notes.

Government of the United States Virgin Islands

Statement of Activities

Year Ended September 30, 2006

(In thousands)

		Program Revenues			Net Revenue (Expense) and Changes in Net Assets			
					Primary Government			
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Functions:								
Primary government:								
Governmental activities:								
General government	$ 414,306	$ 28,598	$ 27,685	$ –	$ (358,023)	$ –	$ (358,023)	$ –
Public safety	58,220	564	8,834	–	(48,822)	–	(48,822)	–
Health	109,271	452	23,400	–	(85,419)	–	(85,419)	–
Public housing and welfare	70,736	1,594	49,619	–	(19,523)	–	(19,523)	–
Education	196,395	–	26,047	–	(170,348)	–	(170,348)	–
Transportation and communication	60,700	2,441	10,615	–	(47,644)	–	(47,644)	–
Culture and recreation	6,852	38	248	–	(6,566)	–	(6,566)	–
Termination of swaption fee	26,910	–	–	–	(26,910)	–	(26,910)	–
Interest on long-term debt	61,648	–	–	–	(61,648)	–	(61,648)	–
Total governmental activities	1,005,038	33,687	146,448	–	(824,903)	–	(824,903)	–
Business-type activities:								
Unemployment insurance	5,151	1,476	–	–	–	(3,675)	(3,675)	–
West Indian Company	9,638	11,576	–	–	–	1,938	1,938	–
Workers' compensation	9,121	9,111	–	–	–	(10)	(10)	–
VI Lottery	15,708	18,500	–	–	–	2,792	2,792	–
Other	10,434	12,404	–	–	–	1,970	1,970	–
Total business-type activities	50,052	53,067	–	–	–	3,015	3,015	–
Total primary government	$ 1,055,090	$ 86,754	$ 146,448	$ –	(824,903)	3,015	(821,888)	–
Component units:								
Virgin Islands Housing Authority	$ 41,691	$ 5,634	$ 30,371	$ –	–	–	–	(5,686)
Virgin Islands Port Authority	51,306	39,279	–	2,796	–	–	–	(9,231)
Virgin Islands Water and Power Authority:								
Electric system	203,262	205,041	–	–	–	–	–	1,779
Water system	35,884	33,723	–	–	–	–	–	(2,161)
Virgin Islands Government Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	80,649	47,070	25,125	4,496	–	–	–	(3,958)
Juan F. Luis Hospital	61,916	28,980	23,871	2,674	–	–	–	(6,391)
University of the Virgin Islands	67,363	14,953	43,847	3,192	–	–	–	(5,371)
Other component units	19,168	5,273	11,499	6,442	–	–	–	4,046
Total component units	$ 561,239	$ 379,953	$ 134,713	$ 19,600	–	–	–	(26,973)

(Continued)

Government of the United States Virgin Islands

Statement of Activities (continued)

Year Ended September 30, 2006
(In thousands)

	Net Revenue (Expense) and Changes in Net Assets – Primary Government: Governmental Activities	Business-type Activities	Total	Component Units
Total primary government and component units	(824,903)	3,015	(821,888)	(26,973)
General revenues:				
Taxes	872,108	–	872,108	–
Interest and other	72,984	2,076	75,060	11,170
Tobacco settlement rights	973	–	973	–
Transfers – internal activities of primary government	(4,938)	4,938	–	–
Total general revenue and transfers	941,127	7,014	948,141	11,170
Changes in net assets (deficit)	116,224	10,029	126,253	(15,803)
Net assets (deficit), beginning of year (as restated)	(206,100)	65,425	(140,675)	678,994
Net assets (deficit), end of year	$ (89,876)	$ 75,454	$ (14,422)	$ 663,191

See accompanying notes.

Government of the United States Virgin Islands

Balance Sheet – Governmental Funds

September 30, 2006
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Assets					
Cash and cash equivalents	$ 103,790	$ –	$ 31,774	$ 25,155	$ 160,719
Investments	271,129	167,597	140,422	23,645	602,793
Receivables:					
Taxes, net	234,982	27,380	–	–	262,362
Accrued interest and other	1,358	–	–	194	1,552
Due from:					
Other funds	8,846	–	313	11,420	20,579
Component units, net	2,879	–	–	–	2,879
Federal government	–	–	–	27,994	27,994
Other assets	–	–	–	34	34
Total assets	$ 622,984	$ 194,977	$ 172,509	$ 88,442	$ 1,078,912
Liabilities and Fund Balances					
Accounts payable and accrued liabilities	$ 59,335	$ 416	$ 4,349	$ 15,999	$ 80,099
Tax refunds payable	77,523	–	–	–	77,523
Due to:					
Other funds	10,879	–	–	3,178	14,057
Component units	4,482	–	–	–	4,482
Deferred revenue	242,747	64,420	–	12,541	319,708
Other current liabilities	–	–	–	1,277	1,277
Total liabilities	394,966	64,836	4,349	32,995	497,146
Fund balances reserved for:					
Encumbrances	120,249	–	–	–	120,249
Debt service	–	130,141	–	7,145	137,286
Unreserved fund balance, reported in:					
General fund	107,769	–	–	–	107,769
Special revenue funds	–	–	–	66,530	66,530
Capital projects funds	–	–	168,160	(18,228)	149,932
Total fund balances	228,018	130,141	168,160	55,447	581,766
Total liabilities and fund balances	$ 622,984	$ 194,977	$ 172,509	$ 88,442	

Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	639,669
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	25,338
Because the focus of governmental funds is on short-term financing, some assets, primarily taxes receivable, will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the funds.	232,060
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(30,286)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,538,423)
Deficit of governmental activities	$ (89,876)

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2006
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Revenues:					
Taxes	$ 642,744	$ 187,043	$ 2,250	$ 29,549	$ 861,586
Federal grants and contributions	–	3,446	–	143,003	146,449
Charges for services	24,985	–	–	8,701	33,686
Tobacco settlement rights	–	–	–	1,016	1,016
Interest and other	31,394	6,353	12,715	22,522	72,984
Total revenues	699,123	196,842	14,965	204,791	1,115,721
Expenditures:					
Current:					
General government	307,942	–	6,322	91,300	405,564
Public safety	48,675	–	–	8,001	56,676
Health	86,258	–	4,603	15,095	105,956
Public housing and welfare	32,715	–	1,203	36,818	70,736
Education	172,301	–	–	18,447	190,748
Transportation and communication	37,189	–	2,395	16,657	56,241
Culture and recreation	5,098	–	–	1,489	6,587
Capital outlays	18,141	–	54,934	247	73,322
Debt service:					
Principal	–	190,810	2,262	1,220	194,292
Interest	–	61,172	188	981	62,341
Bond issuance costs	–	9,252	–	472	9,724
Total expenditures	708,319	261,234	71,907	190,727	1,232,187
Excess (deficiency) of revenue over (under) expenditures	(9,196)	(64,392)	(56,942)	14,064	(116,466)
Other financing sources (uses):					
Issuance of refunding bonds	–	178,580	40,910	7,290	226,780
Payment to refunding bond escrow agent	–	(17,372)	–	–	(17,372)
Fee on termination of swaption contract	–	–	(26,910)	–	(26,910)
Loans issued	–	–	4,000	–	4,000
Transfers from other funds	133,504	–	1,175	22,176	156,855
Transfers to other funds	(13,520)	(115,660)	(1,938)	(30,675)	(161,793)
Premium (discount) on bonds issued	–	11,572	–	(358)	11,214
Total other financing sources (uses), net	119,984	57,120	17,237	(1,567)	192,774
Net change in fund balances	110,788	(7,272)	(39,705)	12,497	76,308
Fund balance at beginning of year, as restated	117,230	137,413	207,865	42,950	505,458
Fund balance at end of year	$ 228,018	$ 130,141	$ 168,160	$ 55,447	$ 581,766

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2006
(In thousands)

Net change in fund balances – total governmental funds	$ 76,308
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	51,767
Tax revenue in the statement of activities, which does not provide current financial resources, is not reported as revenue in the funds.	10,477
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. These transactions have no effect on net assets. This is the amount by which bond and loan proceeds of $230,780 exceeded principal retirement of $194,292 in the current period.	(36,488)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year increased expenses reported in the statement of activities that do not require the use of current financial resources.	112
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceeded amortization expense in the current period.	8,791
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents the capitalization of premiums on bonds issued during the current year of $6,159 and the additional net interest expense of $1,595 reported in the statement of activities related to the amortization of premiums, discounts deferred refunding loss, and accreted interest on capital appreciation bonds during the current year.	4,564
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the decrease in interest payable reported in the statement of net assets less accrued interest.	693
Change in net assets of governmental activities	$ 116,224

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues and Expenditures – Budget and Actual – Budgetary Basis – General Fund

Year Ended September 30, 2006
(In thousands)

	Original Budget	Amended Budget	Actual	Positive/ (Negative) Variance
Revenues:				
Taxes	$ 485,055	$ 485,055	$ 621,116	$ 136,061
Charges for services	10,206	10,206	16,076	5,870
Interest and other	28,187	28,187	27,015	(1,172)
Total revenues	523,448	523,448	664,207	140,759
Expenditures:				
Current:				
General government	178,173	223,574	306,542	(82,968)
Public safety	82,117	82,347	48,675	33,672
Health	84,224	92,910	86,258	6,652
Public housing and welfare	54,591	58,786	32,715	26,071
Education	213,389	217,465	171,460	46,005
Transportation and communication	32,830	40,647	16,183	24,464
Culture and recreation	22,535	25,948	4,057	21,891
Total expenditures	667,859	741,677	665,890	75,787
Excess of expenditures over revenue	(144,411)	(218,229)	(1,683)	216,546
Other financing sources (uses):				
Transfers from other funds	80,470	80,470	105,333	24,863
Transfer to other funds	(6,837)	(7,037)	(7,037)	–
Total other financing sources (uses), net	73,633	73,433	98,296	24,863
Excess of revenue and other financing sources over expenditures	$ (70,778)	$ (144,796)	$ 96,613	$ 241,409

See accompanying notes.

Government of the United States Virgin Islands

Statement of Net Assets – Proprietary Funds

September 30, 2006
(In thousands)

	Business-type Activities – Enterprise Funds			
	Unemployment Insurance	West Indian Company	Other	Totals
Assets				
Current assets:				
Cash and cash equivalents	$ 164	$ 5,835	$ 17,453	$ 23,452
Investments at fair value	–	1,010	–	1,010
Receivables, net:				
Premiums receivable	1,358	–	–	1,358
Accrued interest and other	–	1,535	–	1,535
Other receivables	–	–	1,060	1,060
Due from other funds	–	–	300	300
Inventories and other current assets	–	–	24	24
Other assets	–	799	103	902
Total current assets	1,522	9,179	18,940	29,641
Noncurrent assets:				
Restricted cash and cash equivalents	30,549	1,820	–	32,369
Capital assets	–	35,492	10,803	46,295
Deferred expenses	–	377	–	377
Total noncurrent assets	30,549	37,689	10,803	79,041
Total assets	32,071	46,868	29,743	108,682
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	–	1,478	2,043	3,521
Due to other funds	–	1,000	5,822	6,822
Unemployment insurance benefits	2,032	–	–	2,032
Unearned revenue	17	–	117	134
Loans payable related to capital assets	–	654	–	654
Total current liabilities	2,049	3,132	7,982	13,163
Noncurrent liabilities:				
Loans payable related to capital assets	–	20,065	–	20,065
Total liabilities	2,049	23,197	7,982	33,228
Net assets				
Invested in capital assets, net of related debt	–	14,773	10,803	25,576
Restricted	30,022	8,898	–	38,920
Unrestricted	–	–	10,958	10,958
Total net assets	$ 30,022	$ 23,671	$ 21,761	$ 75,454

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds

Year Ended September 30, 2006
(In thousands)

	Business-type Activities – Enterprise Funds			
	Unemployment Insurance	West Indian Company	Other	Total
Operating revenues:				
Charges for services	$ 1,476	$ 11,576	$ 40,015	$ 53,067
Total operating revenues	1,476	11,576	40,015	53,067
Operating expenses:				
Cost of services	5,151	7,179	34,668	46,998
Depreciation and amortization	–	1,521	594	2,115
Total operating expenses	5,151	8,700	35,262	49,113
Operating income (loss)	(3,675)	2,876	4,753	3,954
Nonoperating revenue (expenses):				
Interest income	1,490	210	375	2,075
Interest expense	–	(938)	–	(938)
Total nonoperating revenue (expenses), net	1,490	(728)	375	1,137
Income (loss) before operating transfers	(2,185)	2,148	5,128	5,091
Transfers from other funds	–	–	5,938	5,938
Transfers to other funds	–	(1,000)	–	(1,000)
Change in net assets	(2,185)	1,148	11,066	10,029
Net assets at beginning of year *(as restated)*	32,207	22,523	10,695	65,425
Net assets at end of year	$ 30,022	$ 23,671	$ 21,761	$ 75,454

See accompanying notes.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

Year Ended September 30, 2006
(In thousands)

	Business-type Activities – Enterprise Funds			
	Unemployment Insurance	West Indian Company	Other	Total
Cash flows from operating activities				
Receipts from customers and users	$ 940	$ 10,497	$ 40,149	$ 51,586
Payments to beneficiaries	(5,231)	–	–	(5,231)
Payments to suppliers and employees	–	(7,537)	(39,086)	(46,623)
Net cash provided by (used in) operating activities	(4,291)	2,960	1,063	(268)
Cash flows from noncapital financing activities				
Transfer from other funds	–	–	5,938	5,938
Transfers to other funds	–	(1,000)	–	(1,000)
Net cash provided by (used in) noncapital financing activities	–	(1,000)	5,938	4,938
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	–	(1,534)	(3,055)	(4,589)
Principal paid on long-term debt	–	172	–	172
Proceeds from sale of asset	–	–	–	–
Interest paid on long-term debt	–	(908)	–	(908)
Net cash used in capital and related financing activities	–	(2,270)	(3,055)	(5,325)
Cash flows from investing activities				
Interest and dividends on investments	1,490	210	375	2,075
Purchase of investments	–	(170)	–	(170)
Net cash provided by investing activities	1,490	40	375	1,905
Net increase (decrease) in cash and cash equivalents	(2,801)	(270)	4,321	1,250
Cash and cash equivalents at beginning of year *(as restated)*	33,514	7,925	13,132	54,571
Cash and cash equivalents at end of year	$ 30,713	$ 7,655	$ 17,453	$ 55,821
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ (3,675)	$ 2,876	$ 4,753	$ 3,954
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	–	1,521	594	2,115
Change in assets and liabilities:				
Receivables, net	(536)	(1,079)	158	(1,457)
Deferred revenue	(48)	–	(24)	(72)
Other assets	–	–	382	382
Accounts payable and accrued expenses	(32)	(358)	(4,800)	(5,190)
Net cash provided by (used in) operating activities	$ (4,291)	$ 2,960	$ 1,063	$ (268)
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents – current	$ 164	$ 5,835	$ 17,453	$ 23,452
Cash and cash equivalents – restricted	30,549	1,820	–	32,369
Cash and cash equivalents at end of year on statement of cash flows	$ 30,713	$ 7,655	$ 17,453	$ 55,821

See accompanying notes.

Government of the United States Virgin Islands

Statement of Fiduciary Net Assets – Fiduciary Funds

September 30, 2006
(In thousands)

	Pension Trust Funds	Agency Funds
Assets		
Cash and cash equivalents:		
Unrestricted	$ 108,098	$ 8,431
Restricted	51	–
Investments	1,543,782	4,959
Receivables, net:		
Loans and advances	112,557	–
Accrued interest	5,605	–
Other	4,605	–
Other assets	11,260	–
Total assets	1,785,958	13,390
Liabilities		
Accounts payable and accrued liabilities	–	13,390
Cash overdraft with the Department of Finance	10,454	–
Cash overdraft with bank	3,533	–
Unsettled securities purchased	7,376	–
Securities lending collateral	271,162	–
Notes payable	10,000	–
Other liabilities	5,956	–
Total liabilities	308,481	13,390
Net assets held in trust for employees' pension benefits	$ 1,477,477	$ –

See accompanying notes.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds

Year Ended September 30, 2006
(In thousands)

	Pension Trust Funds
Additions:	
Contributions:	
Employer	$ 65,061
Plan members	34,210
Total contributions	99,271
Investment income:	
Net appreciation of fair value of investments	62,705
Interest, dividends, and other, net	56,072
Real estate – rental income	3,645
	122,422
Less investment expense	18,118
Net investment income	104,304
Other income	263
Total additions	203,838
Deductions:	
Benefits paid	147,801
Refunds of contributions	2,935
Administrative and operational expenses	10,258
Total deductions	160,994
Change in net assets	42,844
Net assets, beginning of year	1,434,633
Net assets, end of year	$ 1,477,477

See accompanying notes.

1. Summary of Significant Accounting Policies

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

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

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

Financial Reporting Entity

The Government follows the provisions of GASB Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. These standards require that the Government's financial reporting entity be defined according to specific criteria. According to the standard for financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable, and other organizations for which the nature and significance of their relationship with the Government are such that exclusion would cause the basic financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (i) the ability of the PG to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG. The financial statements of the following component units are included in the financial reporting entity either as blended or as discretely presented component units in accordance with GAAP.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(a) Blended Component Units

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

Virgin Islands Public Finance Authority

The Virgin Islands Public Finance Authority (PFA) was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, the Government Capital Improvement Act of 1988, with the purpose of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, PFA has the power, among other matters, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government or any governmental instrumentality. The powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the Legislature. PFA activities are blended within the PG because it is so intertwined with the Government that, in substance, they are the same. The PFA is reported as major funds.

PFA has a component unit, the West Indian Company (WICO), which is presented as an enterprise fund in the Government's basic financial statements as further described in Note 1(d).

Tobacco Settlement Financing Corporation

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(a) Blended Component Units (continued)

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

Administrative Offices of Blended Component Units

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

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

(b) Discretely Presented Component Units

The following component units, consistent with GASB Statements No. 14 and 39, are discretely presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will. The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

Major Component Units

Virgin Islands Housing Authority

The Virgin Islands Housing Authority (VIHA) was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 903 on June 18, 1962 with the purpose of providing housing for low-income families. Up until August 2003, the powers of VIHA were exercised by a board of commissioners consisting of seven members as follows: the Commissioner of Housing and Community Renewal and six other members appointed by the Governor. In August 2003, the U.S. Department of Housing and Urban Development (HUD) determined that because of the severity of compliance violations, VIHA was declared to be in substantial default of its annual contributions contract (ACC) dated July 12, 1996 with HUD. The VIHA was placed in receivership and HUD assumed possession of all assets, projects, and programs.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Virgin Islands Housing Authority (continued)

Given the nature of VIHA's operations and the significance of its relationship with the Government, management believes that its exclusion from the financial reporting entity would cause the Government's basic financial statements to be incomplete and misleading. Accordingly, VIHA continues to be reported as a major component unit of the Government even though the Government no longer appoints its commissioners.

Virgin Islands Port Authority

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

Virgin Islands Water and Power Authority

The Virgin Islands Water and Power Authority (WAPA) was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 1248 of August 13, 1964, with the purpose of operating the water production and electric generation plants in the U.S. Virgin Islands. The powers of WAPA are exercised by a governing board consisting of nine members, all appointed by the Governor with the advice and consent of the Legislature, from which three are heads of cabinet-level executive departments or agencies and six other persons, who shall not be employees of the Government. WAPA is required by its bond resolutions to maintain separate audited financial statements for each system (the Electric and Water Systems).

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Virgin Islands Government Hospital and Health Facilities Corporation

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

University of the Virgin Islands

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

University of the Virgin Islands (continued)

The University's financial statements include its component units: The Foundation for the University of the Virgin Islands, The Reichhold Foundation, and the University of the Virgin Islands Research and Technology Park. The Foundation for the University of the Virgin Islands is a not-for-profit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Reichhold Foundation is a not-for-profit corporation that supports the arts and provides financial assistance in operating the Reichhold Center for the Arts on St. Thomas. The University of the Virgin Islands Research and Technology Park is a nontaxable public corporation developed to promote economic growth, development, and diversification in the Virgin Islands.

Nonmajor Component Units

Virgin Islands Economic Development Authority

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

Magens Bay Authority

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Virgin Islands Housing Finance Authority

The Virgin Islands Housing Finance Authority (VIHFA) was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government by Act No. 4636 of October 20, 1981, with the purpose of stimulating low- and moderate-income housing construction and home ownership through the issuance of revenue bonds to obtain funds to be used for low-interest mortgage loans to qualified purchasers of low- and moderate-income housing. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with advice and consent of the Legislature.

Virgin Islands Public Television System

The Virgin Islands Public Television System (PTS) was created as a body corporate and politic constituting a public corporation and autonomous instrumentality by Act No. 2364 on November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of all the population of the U.S. Virgin Islands and to provide an effective supplement to the in-school education of children. The powers of PTS are exercised by a board of directors consisting of the Commissioner of Education, the Chairman of the Board of Education, three members appointed by the President of the Legislature, and four members, not more than two of whom should be employed by the Government and appointed by the Governor with the advice and consent of the Legislature. In addition, the Director of the Office of Management and Budget, the President of the University of the Virgin Islands, and the General Manager of PTS are ex-officio members of the board who are not entitled to vote.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Virgin Islands Waste Management Authority

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

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

Administrative Offices

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

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

Virgin Islands Economic Development Authority
1050 Norre Gade #5
St. Thomas, VI 00802

Magens Bay Authority
PO Box 10583
St. Thomas, VI 00802

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

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

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

All financial statements of the discretely presented component units have a fiscal year-end of September 30, 2006, except for WAPA and VIHA that have a year-ends of June 30, 2006 and December 31, 2005, respectively.

(c) Fiduciary Component Units

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Employees' Retirement System of the Government of the Virgin Islands

The Employees' Retirement System of the Government of the Virgin Islands (known as GERS) was created as an independent and separate agency of the Government with the purpose of administering the Government's defined-benefit pension plan established on October 1, 1959. Component units of the Government also participate in the cost-sharing, multiple employer defined benefit plan. The responsibility for the operation of GERS is vested in a board of trustees composed of seven members appointed by the Governor with the advice and consent of the Legislature.

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

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the PG and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net assets (deficit) presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets or net deficit.

1. Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

(b) Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, property taxes, and income taxes are considered to be available if collected within 30, 60, and 90 days, respectively, after the end of the current

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

(b) Governmental Fund Financial Statements (continued)

fiscal year-end. Grant revenue is considered to be available if collected within 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

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

Each proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* to elect and apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless these conflict with a GASB pronouncement. The PG and most blended and discretely presented component units have elected not to apply FASB pronouncements issued after November 30, 1989 for its proprietary fund types. VIPA has elected to follow the FASB's pronouncements issued after November 30, 1989.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

1. Summary of Significant Accounting Policies (continued)

Fund Accounting

The Government reports its financial position and results of operations in funds, which are considered separate accounting entities and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. GASB No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*, establishes criteria (percentage of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Indirect costs are automatically allocated and reported in the program expense for each fund. Nonmajor funds are combined in a single column in the fund financial statements. The Government reports the following major funds:

(a) Governmental Funds

The Government reports the following major governmental funds:

- General Fund – The General Fund is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- PFA Debt Service – The PFA Debt Service accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government.
- PFA Capital Projects Fund – The PFA Capital Projects Fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(b) Proprietary Funds

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

- Unemployment Insurance Fund – The unemployment insurance fund accounts for the collection of unemployment premiums from employers in the U.S. Virgin Islands, and the payment of unemployment benefits to eligible unemployed recipients.
- West Indian Company – WICO, a component unit of PFA, accounts for the activities of a cruise ship pier and shopping mall complex on the island of St. Thomas.

(c) Fiduciary Funds

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

- Pension Trust Fund – The pension trust fund accounts for the activities of the Employees' Retirement System of the Government of the Virgin Islands, which accumulates resources for pension benefit payments to qualified employees.
- Agency Fund – The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Cash and Cash Equivalents

The Government follows the practice of pooling cash. The balance in the pooled cash accounts is available to meet current operating requirements, and any excess is invested in various interest-bearing accounts and time deposits with eligible depository institutions.

Cash equivalents of the proprietary funds and discretely presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, short-term U.S. government and its agencies' obligations and repurchase agreements with a U.S. commercial bank maturing within

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents (continued)

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

Investments

The primary Government and its component units follow the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

Investment Policies

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

- ***Primary Government Investment Policies*** **–** Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and agencies obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. As of September 30, 2006, the PG General Fund, a non-major governmental fund, and an agency Fund had invested in certificates of deposit with a local bank. Investments are reported at fair value.

- ***Public Finance Authority Investment Policies*** – Under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for Most External Investment Pools*, investments of the PFA are reported at fair value. Various bond resolutions of the PFA restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the Authority. The PFA handles investments for two major governmental funds of the Government, the PFA Debt Service Fund, and the PFA Capital Projects Fund.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***Tobacco Settlement Financing Corporation Investment Policies*** – Various bond resolutions of this blended component unit restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The Authority has retained investment managers and investments are held in trust by a commercial bank on behalf of the Authority. Investments are reported at fair value in the non-major governmental fund of the Government.

- ***West Indian Company Limited Investment Policies*** – This blended business-type major fund of the Government maintains an investment policy that 1) limits investments in bonds to a maximum remaining maturity of 30 years (or estimated average life on mortgage-backed issues), 2) limits fixed income securities to a maximum of 40% and a minimum of 30% of the overall assets of the WICO portfolio, 3) limits corporate bond exposure to 45% of the fixed income portfolio, and 4) has no provision which limits or restricts investments in U.S. Government Treasury or Agency issues. WICO reports investments at fair value.

- ***Pension Trust Fund Investment Policies*** - The board of trustees of the Government retirement system (GERS) have enacted policies that limit investments in certain investment categories and provide requisites for the institutions with which investment transactions may be entered into. Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund, or exceed 1% of the outstanding stock of the corporation. The aggregate amount of investments in stocks may not exceed 60% of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of the system.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

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

Investment by GERS in the Havensight Mall is carried at original purchase price plus appreciated value. Investment by GERS in GERS facilities in St. Thomas and St. Croix are carried at historical cost net of accumulated depreciation and amortization on the portion of the facilities occupied by GERS.

- ***Virgin Islands Water and Power Authority Investment Policies*** – This major component unit is authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the United Stated government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

- ***Virgin Islands Port Authority Investment Policies*** - This major component unit is authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the United Stated government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

- ***University of the Virgin Islands Investment Policies*** – The board of trustees of this major component unit is responsible for the management of the University's investments which consist of U.S. Government securities and securities backed by the U.S. Government or its agencies and instrumentalities, common and preferred stocks, and mutual funds. Currently, the University's policies do not address risks associated with investments.

- ***Virgin Islands Government Hospital and Health Facilities Corporation Investment Policies*** – The board of trustees of this major component unit have not developed a formal investment policy. At September 30, 2006, investments were comprised of certificates of deposit which were reported at fair value.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

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

Receivables

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes and real property taxes. Tax revenue is recognized in the governmental fund financial statements when they become both measurable and available based on actual collections during the months subsequent to the fiscal year end.

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

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

Subject to the provisions of the retirement law and subject to rules and regulations prescribed by the board of trustees of GERS, participants of the Pension Trust Fund have the right of obtaining loans from the Pension Trust Fund to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to the Pension Trust Fund for at least five years is $250,000. The interest rate on new first mortgages was 8% and on second mortgages, 9% throughout the year. Members may also borrow up to $50,000 to buy land.

Members who have contributed to the Pension Trust Fund for at least five years can borrow up to $18,000 for the purchase of an automobile. The loans bear interest at 11% with a maximum term of four years. A member may also borrow up to 75% of their contributions to the Pension Trust Fund to a maximum borrowing of $20,000 as a personal loan. The interest rate offered on personal loans was 9% throughout the year.

1. Summary of Significant Accounting Policies (continued)

Receivables (continued)

Member loans in the pension trust fund are valued at the outstanding loan principal balance less an allowance for estimated loan losses.

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

Inventories

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

Restricted Assets

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

Capital Assets

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

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (i) \$5,000 for personal property with a useful life of five years; (ii) \$50,000 for buildings and building improvements with estimated useful lives of 40 and 20 years, respectively; (iii) \$100,000 for land improvements; and (iv) \$200,000 for infrastructure with an estimated useful life of 30 years. The value of all land acquired is capitalized.

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

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

The capital assets of the component units are recorded in accordance with the applicable GASB and FASB statements and under their own individual capitalization thresholds. The estimated useful lives of capital assets reported by the component units are (i) 7 to 50 years for buildings and building improvements; (ii) 20 to 40 years for airports and marine terminals; and (iii) 3 to 20 years for vehicles and equipment.

Tax Refunds Payable

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

1. Summary of Significant Accounting Policies (continued)

Deferred and Unearned Revenue

Deferred revenue at the governmental fund level arises when potential revenue neither meets measurable nor available criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Government has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. In subsequent periods, when the revenue recognition criteria is met, or when the Government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet and the revenue is recognized. Unearned revenue at the government-wide and proprietary fund levels arises only when the Government receives resources before it has a legal claim to them.

Long-term Debt

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, and other long-term liabilities including vacation, retroactive union arbitration salaries, and legal claims. Bond premiums and discounts, losses incurred on bond refundings, and debt issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts and deferred refunding losses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Losses incurred on bond refundings are not recognized in the fund financial statements as the corresponding liability for the bonds is only recorded in the government-wide financial statements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

1. Summary of Significant Accounting Policies (continued)

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets are reported in three categories:

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

- ***Restricted Net Assets*** – These result when constraints placed on net assets, use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

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

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

1. Summary of Significant Accounting Policies (continued)

Postemployment Benefits

In addition to the pension benefits described in Note 13, the Government provides postretirement healthcare benefits, in accordance with the V.I. Code to all employees who retire from the Government on or after attaining age 55 with at least 30 years of service; except for policemen and firemen who can retire with at least 20 years of service. Currently, approximately 4,100 retirees meet those eligibility requirements. Healthcare benefits are provided through insurance companies whose premiums are paid by the retiree and the Government. The Government contributes three-fourths of the healthcare benefits' premiums. The Government does not accrue a liability for postemployment benefit costs, which are recognized on a pay-as-you-go basis. During the year ended September 30, 2006, the cost of providing postretirement healthcare benefits amounted to approximately $13.4 million.

Compensated Absences

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement. This vacation policy does not apply to professional educational personnel of the Virgin Islands Department of Education, who receive compensation during the school breaks. Upon retirement, an employee receives compensation for unused vacation leave at the employee's base pay rate. Accrued compensated absences, including related benefits, are included in other liabilities in the government-wide financial statements.

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

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

1. Summary of Significant Accounting Policies (continued)

Interfund and Intra-entity Transactions

The Government has the following types of transactions among funds:

- ***Interfund Transfers*** – Legally required transfers are reported as interfund transfers in (out) when incurred.
- ***Intra-entity Transactions*** – These are transactions between the PG and its component units, and among the component units. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type. Similarly, receivables and payables between the PG and its blended component units are reported as amounts due to, and due from other funds. Transfers between the PG and discretely presented component units (and among those component units) are reported separately as revenue and expenses or expenditures. Amounts owed to and from discretely presented component units by the PG are reported separately from interfund payables and receivables.

Risk Management

With some exceptions, the Government does not carry general casualty or liability insurance coverage on its properties or the acts of its employees, relying instead on self-insurance and/or statutory liability limitations. However, as a result of an agreement with the Federal Emergency Management Agency (FEMA), with respect to properties and structures damaged by Hurricane Hugo and repaired with federal disaster assistance funds, the Government has obtained insurance for certain hospitals, schools, and other insurable public buildings that were repaired with such federal assistance. The Government purchases commercial insurance covering physical losses or damages against its property. The limit of liability for all risks, excluding earthquake, windstorm, and flood, is $1 million for each and every occurrence except for windstorm and flood losses, which has a $45 million limit. For physical losses arising from earthquake, the insurance policy has a limit of $100 million for each and every occurrence and in the annual aggregate. Also, the Government has an enterprise fund that provides workers' compensation to both public and private employees.

The Government does not maintain accounting records in support of individual claim liabilities or for claims incurred but not reported (IBNR). Accordingly, workers' compensation claims are accounted for on a cash basis. Therefore, the basic financial statements do not include a liability for workers' compensation claims outstanding, including related IBNR, as of September 30, 2006.

1. Summary of Significant Accounting Policies (continued)

Risk Management (continued)

Certain component units are exposed to various risks of loss related to their specialized operations, which are mitigated by purchasing commercial insurance.

Future Adoption of Accounting Requirements

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

GASB Statement Number		Adoption Required in Fiscal Year
43	Financial Reporting for Postemployment Benefit Plans Other than Pension Plans	2007
45	Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions	2008
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	2008
49	Accounting and Financial Reporting for Pollution Remediation Obligations	2009
50	Pension Disclosures - an amendment of GASB Statements No. 25 and No. 27	2008
51	Accounting and Financial Reporting for Intangible Assets	2010
52	Land and Other Real Estate Held as Investments by Endowments	2009

The impact of these statements has not yet been determined.

1. Summary of Significant Accounting Policies (continued)

Use of Estimates

Management of the Government has made a number of estimates and assumptions relating to the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

2. Component Units

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

- Virgin Islands Housing Authority
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- University of the Virgin Islands
- Economic Development Authority
- Magens' Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Television System
- Waste Management Authority

2. Component Units (continued)

Condensed financial information of all discretely presented component units follows (expressed in thousands):

			Virgin Islands Water and Power Authority		Virgin Islands Government Hospital and Health Facilities Corporation				
Information on net assets	Virgin Islands Housing Authority	Virgin Islands Port Authority	Electric System	Water System	Roy L. Schneider Hospital	Juan F. Luis Hospital	University of the Virgin Islands	Other Component Units	Total Component Units
Assets:									
Current assets	$ 9,322	$ 19,114	$ 80,420	$ 17,802	$ 21,287	$ 10,739	$ 57,682	$ 20,707	$ 237,073
Due from primary government	–	3,016	–	–	–	–	754	712	4,482
Due from federal government	798	2,037	–	–	–	1,000	4,009	–	7,844
Restricted assets	88	8,808	51,696	8,956	–	–	29,229	15,759	114,536
Capital assets, net	63,849	270,776	202,289	48,570	79,492	29,599	44,517	56,673	795,765
Deferred expenses		1,562	13,271	926	–	–	1,467	–	17,226
Total assets	74,057	305,313	347,676	76,254	100,779	41,338	137,658	93,851	1,176,926
Liabilities:									
Current liabilities	3,465	9,097	63,838	4,404	22,610	23,538	14,303	3,265	144,520
Due to primary government					8,933	20,520		4,306	33,759
Due to federal government	2,082	–	5,300	–	–	–	–	–	7,382
Bonds payable	–	41,778	155,534	31,622	–	–	43,238	4,645	276,817
Loans payable	–	1,460	16,600	–	–	–	1,681	1,834	21,575
Other noncurrent liabilities	3,683	–	–	–	875	–	45	25,079	29,682
Total liabilities	9,230	52,335	241,272	36,026	32,418	44,058	59,267	39,129	513,735
Net assets:									
Invested in capital assets – net of related debt	63,848	228,998	73,613	17,621	78,114	29,575	21,941	46,563	560,273
Restricted	–	8,808	18,479	8,198	1,168		48,155	7,727	92,535
Unrestricted (deficit)	979	15,172	14,312	14,409	(10,921)	(32,295)	8,295	432	10,383
Total net assets	$ 64,827	$ 252,978	$ 106,404	$ 40,228	$ 68,361	$ (2,720)	$ 78,391	$ 54,722	$ 663,191

2. Component Units (continued)

Information on statements of activities	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions	Total Component Units
Virgin Islands Housing Authority	$ 41,691	$ 5,634	$ 30,371	$ –	$ (5,686)
Virgin Islands Port Authority	51,306	39,279	–	2,796	(9,231)
Virgin Islands Water and Power Authority:					
Electric System	203,262	205,041	–	–	1,779
Water System	35,884	33,723	–	–	(2,161)
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	80,649	47,070	25,125	4,496	(3,958)
Juan F. Luis Hospital	61,916	28,980	23,871	2,674	(6,391)
University of the Virgin Islands	67,363	14,953	43,847	3,192	(5,371)
Other component units	19,168	5,273	11,499	6,442	4,046
Total activities	$ 561,239	$ 379,953	$ 134,713	$ 19,600	(26,973)
General revenue:					
Interest and other					11,170
Changes in net assets					(15,803)
Net assets at beginning of year					678,994
Net assets at end of year					$ 663,191

3. Stewardship, Compliance, and Accountability

Budgetary Process and Control

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual executive budget no later than May 30. The annual executive budget is prepared essentially on a GAAP basis, except for encumbrances, which are reported as expenditures for budget reporting purposes, by the Virgin Islands Office of Management and Budget (OMB) working in conjunction with other Government offices and agencies. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed reappropriated item by item. The annual executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all

3. Stewardship, Compliance, and Accountability (continued)

Budgetary Process and Control (continued)

proposed expenditures and estimated revenue for the Government. The Legislature enacts the annual executive budget through passage of lump-sum appropriations for each department. The Legislature may add, change, or delete any items in the annual executive budget proposed by the Governor. Upon passage by the Legislature, the annual executive budget is submitted to the Governor, who may veto the budget partially or in its entirety and return it to the Legislature with his objections. A veto by the Governor can be overridden only by a two-third majority of all members of the Legislature. The Legislature is obligated by law to pass a final annual executive budget no later than September 30, the last day of the fiscal year. Supplemental budgetary appropriations' bills that are signed into law may be created during the year without the identification of a specific revenue source to finance them. In August 1999, the Legislature enacted the Financial Accountability Act (Act No. 6289). The purpose of the Financial Accountability Act is to require by law that the budget of the Government be balanced each year, and the appropriations in each fiscal year not exceed a verifiable revenue source.

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

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

3. Stewardship, Compliance, and Accountability (continued)

Budget/GAAP Reconciliation

The following schedule presents a comparison of the General Fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference in the excess of revenue and other financing sources over expenditures and other financing uses for the year ended September 30, 2006 is presented below (expressed in thousands):

Excess of revenue and other financing sources (uses) over expenditures – budget basis	$	96,613
Timing difference – change in encumbrances		(6,461)
Entity difference – excess of revenue and other financing sources over expenditures and other financing uses – activities with budgets not legally adopted		20,636
Excess of revenue and other financing sources over expenditures – GAAP basis	$	110,788

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

4. Cash and Cash Equivalents

Primary Government

The PG and its blended component units consider all highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents. By law, banks, or trust companies designated as depository of public funds of the Government are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited.

4. Cash and Cash Equivalents (continued)

Primary Government (continued)

At September 30, 2006, the PG held $184.2 million in unrestricted cash and cash equivalents, and $32.4 million in restricted cash and cash equivalents. Banco Popular de Puerto Rico held $121 million, or 56% of the PG's cash and cash equivalents, and First Bank held $89 million, or 41% of the PG's cash and cash equivalents. All of the PG's bank balances were fully collateralized.

Pension Trust Fund

The Government's retirement system (GERS) considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2006, GERS held $80.0 million in money market accounts, and $3.4 million in operational accounts.

Component Units

All component units of the Government consider all highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents. By law, banks or trust companies designated as a depository of public funds of the Government are to maintain corporate surety bond or pledge collateral satisfactory to secure all governmental funds deposited.

At September 30, 2006, component units held $59.1 million in unrestricted cash and cash equivalents and $41.8 million in restricted cash and cash equivalents, of which $3 million was not insured, bonded or collateralized as required for public funds of the Government.

5. Investments

Primary Government Investments

The PG and its component units have adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. Following is a summary of the investments of the PG, categorized by investment type and maturity as of September 30, 2006:

5. Investments (continued)

Primary Government Investments (continued)

Primary Government Investments
(in thousands)

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	Over 5 Years
Investments with contractual maturities				
Certificates of Deposit	$ 240,498	$ 240,498	$ –	$ –
Portfolio Investments				
Commercial Paper	208,570	208,227	–	343
Corporate Bonds	203	–	203	–
U.S. Government Agencies and Notes	2,580	1,908	611	61
Total investments with maturities	451,851	$ 450,633	$ 814	$ 404
Investments without contractual maturities				
Money Market and Mutual Funds	151,952			
Total Primary Government Investments	$ 603,803			

Interest Rate Risk. Interest rate risk represents the exposure to fair market value losses arising from increasing interest rates. The PG does not have a formal investment policy that limits investment maturities as a means of managing such exposure. As a means of keeping the interest rate risk low, all investments held by the PG are short term in nature.

Credit Risk. The authorizing legislation of the PG does not limit investments by credit rating categories. Authorizing legislation does limit the investment choices of the PG to: direct obligations or obligations guaranteed by the United States, obligations of states, territories, possessions and commonwealths of the United States, obligations of international banking institutions, repurchase agreements, investment contracts, certificates of deposit, guaranteed investment contracts, shares in mutual funds, investment companies, corporate commercial paper, money market portfolio investments and investment pools.

5. Investments (continued)

Primary Government Investments (continued)

At September 30, 2006, the PG's investments in money market funds were rated AAAm by Standard & Poor's, and Aaa by Moody's Investor Service; PG's investment in commercial paper were rated A-1 or A-1+ by Standard & Poor's, and P-1 by Moody's Investor Services; and the PG's investment in U.S. government agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services.

Concentration of Credit Risk. The PG places no limit on the amount that may be invested in one issuer. At September 30, 2006, more than 5% of the PG's investments were invested in: Banco Popular de Puerto Rico Certificates of Deposit (26.03%), First Bank Certificates of Deposit (13.80%), General Electric Capital Corporation Commercial Paper (12.64%), Fidelity Treasury Money Market #696, Class 3 (12.34%), Morgan Stanley Dean Witter Commercial Paper (6.85%) and Goldman Financial Securities Money Market #474 (5.76%).

Custodial Credit Risk. The PG does not have a custodial risk policy. This is the risk that the PG will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2006, $362.3 million of investments were held in the name of The Bank of New York Trust Company, N.A, as trustee for the Government, and $1 million were held in the name of Merrill Lynch, as trustee for the Government.

5. Investments (continued)

Pension Trust Fund Investments

The pension trust fund (GERS) has implemented GASB Statement No. 40 by establishing separate investment guidelines and restrictions for each investment manager. Following is a summary of pension trust fund investments as of September 30, 2006:

Pension Trust Fund Investments
(in thousands)

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments with contractual maturities					
US government and agency obligations	$ 27,430	$ –	$ 26,169	$ 1,261	$ –
US Treasury notes	61,474	–	52,717	8,757	–
US Treasury bonds	50,957	–	–	7,348	43,609
Corporate obligations	39,880	3,420	18,780	14,018	3,662
Foreign bonds	12,068	2,262	–	9,806	–
Government obligations - foreign	57,820	11,653	30,214	15,953	–
Mortgage and asset backed securities	121,985	–	2,749	1,774	117,462
Total Investments with maturities	371,614	$ 17,335	$ 130,629	$ 58,917	$ 164,733
Investments without contractual maturities					
Equity Securities					
Common stocks - U.S.	641,597				
Common stocks - foreign	123,337				
Preferred stocks - foreign	1,405				
Real Estate Investments					
Real estate investment trusts	1,348				
Havensight Mall - US Virgin Islands	60,513				
GERS Complex - US Virgin Islands	18,561				
Limited partnership	51,000				
Foreign currency exchange contract	184				
Securities lending short-term collateral investment pool	271,162				
Mutual funds	3,061				
Total pension fund investments	$ 1,543,782				

5. Investments (continued)

Pension Trust Fund Investments (continued)

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. GERS does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by GERS follow specific investment guidelines and are evaluated against specific marker benchmarks that represent their investment style. Any exception from general guidelines requires approval from the GERS's board of trustees.

Credit Risk. GERS investment policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by statute, subject to certain additional limitations. These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. GERS investment policy allows investments in mortgage pass-through securities. The credit ratings of GERS debt and equity securities include:

Pension Trust Fund Investment Credit Ratings
(in thousands)

		Credit Ratings	
	Fair Value	Standard & Poor	Moody's
US government and agency obligations	$ 27,430	AAA	AAA
US Treasury notes	61,474	AAA	AAA
US Treasury bonds	50,957	AAA	AAA
Corporate obligations	39,880	BBB- to AAA	BAA1 to AAA
Foreign bonds	2,262	AA	AA2
Foreign bonds	9,806	AAA	AAA
Government obligations - foreign	10,577	AA-	AA2
Government obligations - foreign	33,074	AAA	AAA
Government obligations - foreign	13,092	AAA	Not Rated
Government obligations - foreign	1,077	Not Rated	Not Rated
Mortgage and asset backed securities	671	A-	A3
Mortgage and asset backed securities	110,773	AAA	AAA
Mortgage and asset backed securities	10,541	Not Rated	Not Rated
Common stocks- US	641,597	Not Rated	Not Rated
Common stocks - foreign	123,337	Not Rated	Not Rated
Preferred stocks - foreign	1,405	Not Rated	Not Rated
Real estate investment trust	1,348	Not Rated	Not Rated
Real estate holdings - US Virgin Islands	79,074	Not Rated	Not Rated
Limited partnership	51,000	Not Rated	Not Rated
Foreign currency exchange contract	184	Not Rated	Not Rated
Securities lending short-term collateral investment pool	271,162	Not Rated	Not Rated
Mutual funds	3,061	Not Rated	Not Rated
Total investments	$ 1,543,782		

5. Investments (continued)

Pension Trust Fund Investments (continued)

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the GERS investment in a single issuer of securities. GERS investment policies place limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk. The investment policy provides that a minimum of 60% of GERS investment portfolio be invested in equity stocks and a minimum of 40% be invested in fixed income investments. At September 30, 2006, there were no investments in any one issuer that represent 5% or more of total investments.

Custodial Credit Risk. The custodial credit risk for investments is the risk that, in the event of the failure of a counterparty to a transaction, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on loan secured by non-cash collateral, the entire investment portfolio of GERS was held with a single third-party custodian on behalf of GERS as of September 30, 2006. The fair value of underlying securities on loan secured by non-cash collateral amounted to $7.0 million at September 30, 2006.

Foreign Currency Risk. Foreign currency risk is the risk of holding investments in foreign currencies and the risk that those foreign currencies may devalue. As of September 30, 2006, $195.0 million of GERS portfolio was held in foreign currencies, with $57.0 million held in Euro currency, $51.2 million held in Japanese yen, $29.4 million held in pound sterling, $13.1 million held in Australian dollars, $12.4 million held in Swiss francs and $3.0 million held in Canadian dollars. GERS entered into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates, and to facilitate the settlement of foreign security transactions. Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are reported with interest, dividends, and other income or losses reported at fair value. During the fiscal year ended September 30, 2006, GERS reported $17.3 million in forward currency purchases, $17.1 million in forward currency sales, and a foreign exchange loss of $27 thousand.

5. Investments (continued)

Pension Trust Fund Investments (continued)

Securities Lending Transactions. The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2006 as to the amount of loans the Custodian can make on behalf of the GERS. Under the terms of the Agreement the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were neither such violations during the fiscal year 2006 nor losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the security for domestic borrowers and 105% for foreign borrowers at the inception of the securities lending transaction. Such collateral should be kept at a minimum of 100% of the market value of the security for all borrowers throughout the outstanding period of the transaction. At September 30, 2006, approximately $270.5 million of U.S. government and agency securities, fixed income, and equity corporate securities were on loan. The cash collateral received with a corresponding liability of an equal amount, is recorded in the statement of fiduciary net assets. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2006, such investment pool had a weighted average maturity of 49 days and an average expected maturity of 428 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral.

5. Investments (continued)

Component Unit Investments

Following is a summary of component unit investments, and maturities, as of September 30, 2006:

Component Unit Investments
(in thousands)

		Maturity (in years)			
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**Over 10 Years**
Investments with contractual maturities					
Certificates of Deposit	$ 3,096	$ 3,096	$ –	$ –	$ –
Mortgage backed securites	4,251	–	–	–	4,251
Corporate Bonds	5,467	–	–	–	5,467
U.S. Government Agencies & Notes	37,397	226	35,509	761	901
Investments with contractual maturities:	50,211	$ 3,322	$ 35,509	$ 761	$ 10,619
Investments without contractual maturities:					
Common stock	9,604				
Foreign investments	87				
Mutual funds	33,422				
Investment contracts	18,693				
Other investments	916				
Total component unit investments	$ 112,933				

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

Credit Risk. The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the component units, as described in Note 1(g). The WAPA Electric System investments include an $18.7 million guaranteed investment contract with the Royal Bank of Canada. The investment contract is rated Aa3 by Moody's and AA- by Standard & Poor's. The University of the Virgin Islands investments include corporate bonds amounting to $2.5 million with a rating of A-AAA by Standard & Poor's.

5. Investments (continued)

Component Unit Investments (continued)

Concentration of Credit Risk. The component units have no limits on the amount that may be invested in one issuer of securities. As of the fiscal year-end, the component units reported $37.4 million in U.S. Government and agency securities issued or explicitly guaranteed by the U.S. government, and $33.4 million in mutual funds which are excluded from concentration of credit risk. As of June 30, 2006, WAPA Electric held a guaranteed investment contract with the Royal Bank of Canada in the amount of $18.7 million which represented 16.6% of component unit investments.

Custodial Credit Risk. The component units of the Government do not have custodial credit risk policies. This is the risk that the component unit will not be able to recover the value of its investments that are held in the possession of an outside party. At September 30, 2006, $2.3 million of investments held by VIPA were held in the name of HSBC Bank USA as trustee and $13.4 million of mutual funds held by the University of the Virgin Islands were held on behalf of the university.

6. Receivables

Primary Government Receivables

Receivables for governmental funds at September 30, 2006 consist of the following (expressed in thousands):

	General Fund	PFA Debt Service Fund	Total
Income taxes	$ 230,980	$ –	$ 230,980
Real property taxes	57,823	–	57,823
Gross receipts taxes	–	74,210	74,210
Tax receivables	288,803	74,210	363,013
Less allowance for doubtful accounts	(53,821)	(46,830)	(100,651)
Net tax receivables	$ 234,982	$ 27,380	262,362
Other long-term receivables – tobacco settlement rights			784
Total receivables reported in the statement of net assets			$ 263,146

6. Receivables (continued)

Primary Government Receivables (continued)

The Naval Appropriations Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code of 1986, as amended. Income taxes are due from every corporation, partnership, individual, association, estate, or trust that meets the filing requirements of the U.S. Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies his Virgin Islands income tax obligations by filing his return with and paying income taxes to the Government. Virgin Islands residents are taxed by the Virgin Islands on their world-wide income. A nonresident of the U.S. Virgin Islands pays income taxes on his U.S. Virgin Islands source income to the Government. The revenue is recognized in the General Fund in the fiscal period for which the income tax return was filed. The revenue from income tax withholding and estimated payments are recognized in the General Fund as collected, net of estimated tax refunds.

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

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

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

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

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

6. Receivables (continued)

Primary Government Receivables (continued)

For businesses with gross receipts of $120,000 per annum or less, gross receipts taxes are levied on an annual basis, based on 4% of gross receipts in excess of $5,000. Businesses with annual gross receipts greater than $120,000 and up to $150,000 are levied on a monthly basis, based on 4% of gross receipts in excess of $5,000 per month. Businesses with annual gross receipts of more than $150,000, lose the $5,000 monthly exemption and are levied on a monthly basis of 4% of gross receipts. The gross receipts tax is due within 30 calendar days following the last day of the calendar month collected.

Due from Component Units

Due from component units consist of the following (expressed in thousands):

Due from component units	$	33,759
Less allowance for doubtful accounts		(30,880)
Due from component units, net	$	2,879

Component Unit Receivables

Component unit receivables at September 30, 2006, consist of the following (expressed in thousands):

Utility service charges	$	31,840
Port fees		3,783
Students		3,187
Patients		20,568
Other		1,872
Total	$	61,250

6. Receivables (continued)

Component Unit Receivables (continued)

Loans and advances receivable at September 30, 2006, consist of the following (expressed in thousands):

	Fiduciary Funds Pension Trust	Component Units
Mortgage loans	$ 16,473	$ –
Personal loans	98,759	–
Other loans and advances	325	129
Subtotal	115,557	129
Less allowance for uncollectible accounts	(3,000)	(50)
Loans and advances, net	$ 112,557	$ 79

7. Interfund Transactions

Interfund Transfers

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfers to the General Fund from other governmental funds include a $103 million transfer from the PFA Debt Service representing gross receipt tax revenue in excess of bond service requirements, and a $26 million transfer from a non-major debt service fund representing property tax revenue no longer reserved for debt service requirements.

Significant transfers made from the General Fund include a transfer of $6.9 million to the Emergency Molasses Fund (a non-major governmental fund), a transfer of $3 million to the Government Insurance Fund (a non-major business-type fund), a transfer of $1 million to the Crisis Intervention Fund (a non-major governmental fund), a transfer of $1 million to the Rainy Day Fund (a non-major governmental fund), and a transfer of $620 thousand to the Claims Fund (a non-major governmental fund). Significant transfers from the PFA Debt Service Fund include transfers of $12.7 million to the PFA Operating Surplus Account, representing interest earned from unexpended bond proceeds.

7. Interfund Transactions (continued)

Interfund Transfers (continued)

Contributions from the Virgin Islands Lottery (a non-major business-type fund) amounted to $4.4 million, with contributions to the Educational Initiative Fund (a non-major governmental fund) of $2.3 million, a contribution to the Pharmaceutical Program Fund (a non-major governmental fund) of $1.4 million, and a contribution to the General Fund of $698 thousand.

Interfund transfers for the year ended September 30, 2006 consisted of the following (expressed in thousands):

Transfer to	General Fund	PFA Debt Service Fund	PFA Capital Projects Fund	Nonmajor Governmental Funds	Enterprise Fund – West Indian Company	Nonmajor Enterprise Funds	Total
General fund	$ –	$ 103,004	$ –	$ 29,500	$ 1,000	$ –	$ 133,504
PFA debt service fund	–	–	–	–	–	–	–
PFA capital projects fund	–	–	–	1,175	–	–	1,175
Nonmajor governmental funds	9,520	12,656	–	–	–	–	22,176
Nonmajor enterprise funds	4,000	–	1,938	–	–	–	5,938
Total	$ 13,520	$ 115,660	$ 1,938	$ 30,675	$ 1,000	$ –	$ 162,793
Transfer from							
General fund	$ –	$ –	$ –	$ 9,520	$ –	$ 4,000	$ 13,520
PFA debt service fund	103,004	–	–	12,656	–	–	115,660
PFA capital projects fund	–	–	–	–	–	1,938	1,938
Nonmajor governmental funds	29,500	–	1,175	–	–	–	30,675
Major enterprise fund – WICO	1,000	–	–	–	–	–	1,000
Nonmajor enterprise funds	–	–	–	–	–	–	–
Total	$ 133,504	$ –	$ 1,175	$ 22,176	$ –	$ 5,938	$ 162,793

7. Interfund Transactions (continued)

Due From/To Other Funds

The following table summarizes interfund receivables and payables at September 30, 2006 (expressed in thousands):

Due to	General Fund	PFA Capital Projects Fund	Nonmajor Governmental Funds	Enterprise Fund – West Indian Company	Nonmajor Enterprise Funds	Total
General fund	$ –	$ –	$ 3,178	$ 1,000	$ 4,668	$ 8,846
PFA capital projects fund	–	–	–	–	313	313
Nonmajor governmental funds	10,579	–	–	–	841	11,420
Total Governmental Funds	10,579	–	3,178	1,000	5,822	20,579
Propriety fund – nonmajor Enterprise fund	300	–	–	–	–	300
Total	$ 10,879	$ –	$ 3,178	$ 1,000	$ 5,822	$ 20,879
Due from						
General fund	$ –	$ –	$ 10,579	$ –	$ 300	$ 10,879
Nonmajor governmental funds	3,178	–	–	–	–	3,178
Total Governmental Funds	3,178	–	10,579	–	300	14,057
Enterprise fund – West Indian Company	1,000	–	–	–	–	1,000
Nonmajor enterprise funds	4,668	313	841	–	–	5,822
Total Enterprise Funds	5,668	313	841	–	–	6,822
Total	$ 8,846	$ 313	$ 11,420	$ –	$ 300	$ 20,879

The due from/to other funds includes the following amounts due from the General Fund: $3.6 million due to the PFA Operating Fund (a non-major governmental fund), $3.5 million due to the Emergency Molasses Fund (a non-major governmental fund) for unpaid appropriations, and $1.3 million due to the Elected Governor Retirement Fund.

7. Interfund Transactions (continued)

Due From/To Other Funds (continued)

Other balances composing the due from/to other funds include $2.7 million owed from the bond proceeds fund (a non-major governmental fund) to the General Fund.

The due to the General Fund from the nonmajor enterprise funds amounting to $4.7 million is mainly composed of the amount owed by the Virgin Islands Lottery to the General Fund amounting to $4.5 million, consisting primarily of 8% of the total lottery revenue that is required to be transferred to the General Fund.

The due to non-major governmental funds from the non-major enterprise fund includes $186 thousand due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund, and $233 thousand due from the Virgin Islands Lottery to the VI Educational Initiative Fund, consisting primarily of 15% and 25% of total lottery revenue that is required to be transferred to these funds.

8. Restricted Assets

Primary Government

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

Restricted Assets – Proprietary Funds and Business-type Activities

Unemployment insurance funds	$	30,549
WICO debt service funds		1,820
Total restricted assets of proprietary funds and business-type activities	$	32,369

8. Restricted Assets (continued)

Component Units

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

Restricted Assets – Component Units

Cash and cash equivalents:	
Debt service and sinking fund requirements	$ 15,306
Endowment funds	15,788
HUD project funds	88
Revolving loan funds	10,445
Other	148
Total cash and cash equivalents	41,775
Investments:	
Debt service and sinking fund requirements	24,721
Construction funds	21,749
Endowment funds	13,442
Renewal and replacement funds	7,680
Revolving loan funds	5,166
Total investments	72,758
Other:	
Accrued interest receivable	3
Total restricted assets of component units	$ 114,536

9. Capital Assets

Primary Government

The capital assets activity for the governmental activities for the year ended September 30, 2006, is summarized as follows (expressed in thousands):

	Beginning Balance *(As restated)*	Additions	Reductions	Ending Balance
Capital assets, not being depreciated				
Land	$ 172,113	$ 67	$ –	$ 172,180
Construction in progress	47,431	52,257	–	99,688
Total capital assets, not being depreciated	219,544	52,324	–	271,868
Capital assets, being depreciated:				
Land improvements	3,333	–	–	3,333
Infrastructure	127,471	6,305	–	133,776
Buildings and improvements	334,363	3,411	–	337,774
Machinery and equipment	59,133	8,927	350	67,710
Total capital assets, being depreciated	524,300	18,643	350	542,593
Less accumulated depreciation for:				
Land improvements	1,783	150	–	1,933
Infrastructure	21,864	4,378	–	26,242
Buildings and improvements	98,656	5,879	–	104,535
Machinery and equipment	33,639	8,727	284	42,082
Total accumulated depreciation	155,942	19,134	284	174,792
Total capital assets, being depreciated, net	368,358	(491)	66	367,801
Governmental activities capital assets, net	$ 587,902	$ 51,833	$ 66	$ 639,669

9. Capital Assets (continued)

Primary Government (continued)

Capital assets activity for the business-type activities for the year ended as of September 30, 2006, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets, not being depreciated				
Land and land improvements	$ 5,317	$ –	$ –	$ 5,317
Construction in progress	1,757	3,843	–	5,600
Total capital assets, not being depreciated	7,074	3,843	–	10,917
Capital assets, being depreciated:				
Buildings and improvements	49,137	501	–	49,638
Machinery and equipment	4,376	246	3	4,619
Total capital assets, being depreciated	53,513	747	3	54,257
Less accumulated depreciation for:				
Buildings and improvements	15,179	1,428	–	16,607
Machinery and equipment	1,885	388	1	2,272
Total accumulated depreciation	17,064	1,816	1	18,879
Total capital assets, being depreciated, net	36,449	(1,069)	2	35,378
Business-type activities capital assets, net	$ 43,523	$ 2,774	$ 2	$ 46,295

9. Capital Assets (continued)

Primary Government (continued)

Depreciation and amortization expense was charged to functions/programs of the PG for the year ended September 30, 2006 as follows (expressed in thousands):

Governmental activities:	
General government	$ 3,682
Public safety	2,234
Health	1,509
Education	6,041
Culture and recreation	308
Transportation and communication	5,360
Total depreciation expense – governmental activities	$ 19,134
Business-type activities:	
WICO (major enterprise fund) – depreciation and amortization	$ 1,521
Nonmajor enterprise fund – depreciation	295
Total depreciation and amortization – business-type activities	$ 1,816

Component Units

The capital assets activity for the discretely presented component units for the year ended September 30, 2006 is summarized as follows (expressed in thousands):

	Beginning Balance *(As restated)*	Additions	Reductions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 112,763	$ 5,835	$ 213	$ 118,385
Construction in progress	55,712	40,223	39,622	56,313
Total capital assets, not depreciated	168,475	46,058	39,835	174,698
Capital assets being depreciated:				
Buildings and improvements	1,204,747	34,813	240	1,239,320
Airport and marine terminal facilities	107,653	998	–	108,651
Personal property and equipment	86,136	13,895	3,232	96,799
Total capital assets being depreciated	1,398,536	49,706	3,472	1,444,770
Less accumulated depreciation:				
Buildings and improvements	647,734	46,172	2,749	691,157
Airport and marine terminal facilities	69,365	4,711	–	74,076
Personal property and equipment	54,850	6,495	2,875	58,470
Total accumulated depreciation	771,949	57,378	5,624	823,703
Total capital assets being depreciated, net	626,587	(7,672)	(2,152)	621,067
Component unit capital assets, net	$ 795,062	$ 38,386	$ 37,683	$ 795,765

9. Capital Assets (continued)

Component Units (continued)

Beginning balances of component unit capital assets were restated by $15.5 million.

Depreciation expense charged to each component unit for the year ended September 30, 2006 was as follows (expressed in thousands):

Virgin Islands Housing Authority	$	8,858
Virgin Islands Port Authority		18,587
Virgin Islands Water and Power Authority:		
Electric system		16,328
Water system		2,811
Virgin Islands Government Hospital and Health Facilities Corporation:		
Roy L. Schneider Hospital		4,597
Juan F. Luis Hospital		2,265
University of the Virgin Islands		1,742
Other component units		2,190
Total depreciation – component units	$	57,378

10. Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2006 were as follows (expressed in thousands):

	Beginning Balance *(As restated)*	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Bonds payable:						
1998 Series Revenue and Refunding Bonds	$ 459,790	$ –	$ (14,765)	$ 445,025	$ 15,620	$ 429,405
1999 General Obligation Bonds, Series A	4,765	–	(945)	3,820	1,005	2,815
1999 Series A Revenue Bonds	278,570	–	(167,875)	110,695	5,285	105,410
2001 Series A Tobacco Bonds	21,940	–	(275)	21,665	–	21,665
2002 Series Garvee Bonds	12,940	–	(3,000)	9,940	3,155	6,785
2003 Series A Revenue Bonds	268,020	–	(2,875)	265,145	2,990	262,155
2004 Series A Revenue Bonds	94,000	–	(2,295)	91,705	2,980	88,725
2006 Series A Tobacco Bonds	–	7,290	–	7,290	–	7,290
2006 Series A Revenue Bonds	–	219,490	–	219,490	–	219,490
Subtotal bonds payable	1,140,025	226,780	(192,030)	1,174,775	31,035	1,143,740
Less:						
Deferred amount on refundings	(1,848)	(17,373)	616	(18,605)	(1,372)	(17,233)
Bonds premium	8,035	11,572	(549)	19,058	1,052	18,006
Bonds discount	(8,104)	(358)	954	(7,508)	(960)	(6,548)
Bonds accretion	(764)	–	574	(190)	(143)	(47)
Total bonds payable, net	1,137,344	220,621	(190,435)	1,167,530	29,612	1,137,918
Loans payable:						
Series 2006 Note	–	4,000	–	4,000	1,269	2,731
Series 2005 Note	5,850	–	(2,262)	3,588	2,145	1,443
Total loans payable	5,850	4,000	(2,262)	7,588	3,414	4,174
Other liabilities:						
Accrued compensated absences	47,787	–	(3,707)	44,080	26,448	17,632
Retroactive union arbitration	263,297	8,876	–	272,173	–	272,173
Litigation	23,043	–	(9,022)	14,021	450	13,571
Landfill closure and postclosure costs	29,290	3,452	–	32,742	–	32,742
Arbitrage	–	289	–	289	289	–
Total other liabilities	363,417	12,617	(12,729)	363,305	27,187	336,118
Total governmental activities	$ 1,506,611	$ 237,238	$ (205,426)	$ 1,538,423	$ 60,213	$ 1,478,210
Business-type activities:						
Notes payable:						
WICO	$ 20,546	$ 1,025	$ (852)	$ 20,719	$ 654	$ 20,065
Fiduciary activities:						
Note payable						
Pension trust fund	$ 10,000	$ 10,000	$ (10,000)	$ 10,000	$ 10,000	$ –

10. Long-Term Liabilities (continued)

Accrued compensated absences, retroactive union arbitration liabilities, accrued litigation, and the landfill closure and post-closure costs are generally expected to be liquidated with resources derived from the General Fund.

Debt Margin

Pursuant to 48 U.S.C. Section 1574(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is in excess of 10% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to issue bonds or other obligations in anticipation of the matching funds to be received from the federal government pursuant to 26 U.S.C. Section 7652(b)(3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. Section 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for the purpose of financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b). On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds. As used in Title 2 of the V.I. Code Section 256, the term "debt" means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term "debt" does not include that portion of principal or interest on bonds that is not yet due and payable.

10. Long-Term Liabilities (continued)

Bonds Payable

Bonds payable outstanding at September 30, 2006 are comprised of the following (expressed in thousands):

Primary Government - Bonds Payable

Bonds Payable	Final Maturity	Interest Rates (%)	Balance
1998 Series A, C, D, and E Revenue and Refunding Bonds	2025	5.50 - 7.11	$ 445,025
1999 Series A General Obligation Bonds	2010	6.50	3,820
1999 Series A Revenue Bonds	2033	4.20 - 6.50	110,695
2001 Series A Tobacco Bonds	2031	5.00	21,665
2002 Series Garvee Bonds	2009	2.50 - 5.00	9,940
2003 Series A Revenue Bonds	2033	4.00 - 5.25	265,145
2004 Series A Revenue Bonds	2024	4.00 - 5.25	91,705
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2006 Series A Revenue Bonds	2029	3.50 - 5.00	219,490
Subtotal			1,174,775
Less:			
Deferred amount on refundings			(18,605)
Bonds premium			19,058
Bonds discount			(7,508)
Bonds accretion			(190)
Total			$ 1,167,530

On May 1, 1998, PFA issued the revenue and refunding bonds series 1998 A, B, C, D, and E amounting to $541.8 million, secured by general obligation notes issued by the Government. These bonds were issued for the purpose of, among other things, advance refunding of previously issued bonds in order to obtain lower interest rates.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993, and Series 1994 Bonds. At September 30, 2006, $171.4 million of the above-mentioned defeased bonds were outstanding.

The proceeds of the Series 1992 Revenue Bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue Bonds. At September 30, 2006, $153.4 million of defeased bonds were outstanding. Assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government's basic financial statements.

The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest due and payable on the Revenue Anticipation Note, issued in February 1998. The remaining balance of the 1998 Series D Bonds amounting to approximately $11.6 million was primarily provided to the Government for additional working capital. The net proceeds of the 1998 Series E Bonds amounting to $104 million were primarily designated to fund the construction of certain capital projects amounting to $94 million. The remaining $10 million was deposited in a debt service reserve account.

The U.S. Department of the Treasury makes certain transfers to the Government of substantially all excise taxes imposed and collected under the Internal Revenue laws of the United States in any fiscal year on certain products produced in the U.S. 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 U.S. Department of the Treasury is an amount no greater than the total amount of local revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term "matching fund revenue" is used to denote these payments. The Government has pledged the matching fund revenue, as described above, to the timely payment of principal and interest on the 1998 Series A, B, C, D, and E Bonds and the 2004 Series A Bonds. Thus, amounts to be received by the Government from federal excise taxes, mostly in rum, are deposited directly into trust accounts until the 1998 and 2004 Bonds are paid in accordance with the Indenture of Trust.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

Estimated prepayments of matching fund revenue are made to the Government prior to the beginning of each fiscal year, subject to adjustment for the amount of local revenue actually collected by the U.S. Department of the Treasury during such year. Prepayments of matching fund revenue are recorded as deferred revenue in the accompanying statement of net assets and the balance sheet of the governmental funds and recognized in the following year when earned. The adjustments for actual collections made to the estimated prepayments are recorded in the year determined.

In November 1999, the U.S. Congress approved an increase in the rate of federal excise taxes on rum transferred to the Government from $10.50 to $13.25 per proof gallon. The increase was retroactive to July 1999. The increase in rate has subsequently been extended two times and in December 2005, Congress again extended the $13.25 per proof gallon rate to December 31, 2006.

Interest on the Revenue and Refunding Bonds Series 1998 A, C, D, and E and 1999 Bonds is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 1998 Series bonds. The principal due on October 1 and interest payments due on October 1 and April 1, are funded by the matching fund revenue and deposited into the debt service reserve accounts.

On April 13, 1999, a loan agreement was made between and among the Government, the PFA, International Business Machine Corporation (IBM), Banco Popular de Puerto Rico, and U.S. Trust Company of New York (Y2K Loan). The purpose of this loan was to finance certain costs of compliance by the Government with Year 2000 computer system issues. The loan was evidenced by the Government's issuance of General Obligation Bonds Series 1999 A amounting to $18 million. Principal and interest are payable semiannually on January 1 and July 1. On July 9, 2001, the Government paid the outstanding IBM portion of the bonds amounting to $7.4 million.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

The General Obligation Bonds Series 1999A are secured by the full faith and credit and taxing power of the Government, including a pledge on annual real property tax revenue from its taxation of the Hovensa Oil Refinery (the Refinery), which revenue is deposited in the Hovensa Property Tax Fund, and a contingent pledge of all franchise taxes on foreign sales corporations collected by the Government (Franchise Tax Revenue). Pursuant to the Hovensa Oil Contract, the Refinery agreed to pay $14 million annually of real property taxes on the Refinery properties. Foreign sales corporations qualified to do business in the Virgin Islands must pay a franchise tax of $1.50 for each thousand dollars of capital stock issued (Franchise Tax).

The Government did not comply with the requirement of the General Obligation Bonds 1999 Series to issue its audited financial statements within 180 days after year-end. The Government has not classified these bonds as current since the bonds were not called or paid within one year after September 30, 2006.

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

On September 28, 2006, PFA advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2020 to October 1, 2029 totaling $162.9 million. The proceeds of the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the bonds. Approximately $180 million was deposited with the refunding bond escrow agent to fund the Escrow Fund accounts. At September 30, 2006, $162.9 million of the defeased 1999 Series A Revenue Bonds remain outstanding.

The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the 1999 Series A Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. Gross receipts revenue amounted to $142 million for the year ended September 30, 2006.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Asset-Backed Series A Bonds amounting to $23.6 million of aggregate principal. The proceeds were used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the master settlement agreement (MSA) entered into by participating cigarette manufacturers, (ii) issuance of Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) to provide funds for hospital and healthcare projects in the U.S. Virgin Islands.

Interest on the 2001 bonds is payable semiannually on each May and November 15, beginning with May 2002 for the term bonds amounting to $15.5 million and convertible capital appreciation bonds amounting to $8.2 million, with a nominal value of $6.2 million.

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

2001 Series A Tobacco Bonds payable at September 30, 2006 amounted to $21.7 million with unamortized accretion of $414 thousand. Under early redemption provisions, any MSA payments exceeding annual debt service requirements of the 2001 Series A Tobacco Bonds must be applied to early redemption of principal. MSA payments and interest earnings on the trust funds during the year ended September 30, 2006, resulted in early redemption of $275 thousand during fiscal year 2006.

On October 1, 2002, PFA issued the Series 2002 Revenue Bonds (Garvee Bonds), the proceeds of which amounted to $20.8 million. The Garvee 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.

Interest and principal on the Series 2002 Revenue Bonds are payable semiannually on March 1 and September 1. As of September 30, 2006, the outstanding 2002 Revenue Bonds amounted to $9.9 million.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

On February 28, 2003, PFA entered into a swaption contract that provided PFA with an up-front payment of $8.3 million. The swaption contract gave the counterparty the option to make PFA enter into a pay-fixed, receive-variable interest rate swap. If the option was exercised, PFA would then expect to issue variable-rate refunding bonds. PFA had outstanding $244 million in outstanding 1999 Series A Bonds with maturities from 2011 to 2029 at the time the contract was entered into. The 1999 Series A Bonds were callable by the PFA 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, PFA sold a LIBOR-based swaption to Lehman Brothers Special Financing, Inc. on the 2020 through 2029 maturities, totaling $162.9 million. Lehman purchased the swaption for $8.3 million and it was exercisable on July 1, 2010 only. As part of the 2006 Series Bonds issuance of September 28, 2006, the swaption contract was terminated and PFA made a termination payment to Lehman Brothers of $26.9 million.

On December 17, 2003, PFA issued the Series 2003A Revenue Bonds, the proceeds of which amounted to approximately $268 million. The bonds were issued to: (i) repay the Government outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund debt service accounts for the bond issuance, and (iv) pay certain costs of issuing the bonds.

The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the Series 2003A Revenue Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2005. The Series 2003A Revenue Bonds are not subject to optional redemption prior to October 1, 2014.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

On December 1, 2004, PFA issued the 2004 Series A Bonds, the proceeds of which amounted to $94 million. The Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2024. The proceeds of the bonds were issued 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, (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the Virgin Islands Waste Management Authority, (v) fund the Series 2004A Senior Lien Debt Service Reserve Subaccount, and (vi) pay certain costs of issuing the Series 2004A Bonds. The Series 2004A Bonds are not subject to optional redemption prior to October 1, 2014.

On March 15, 2006, TSFC issued the 2006 Tobacco Settlement Asset-Backed Bonds, Subordinated Series 2006 A, B, C & D Turbo and Capital Appreciation Bonds amounting to $48.1 million, with an issue value of $7.3 (net of accretion of $40.8). The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture and TSFC's rights under the purchase agreement. The proceeds have been used for the purpose of (i) financing several capital, hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) pay certain costs of issuance relating to the Series 2006 Bonds, and (iii) fund operating costs.

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

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

On September 28, 2006, PFA issued the 2006 Series Gross Receipts Revenue Bonds ("2006 Series Bonds"), the proceeds of which amounted to $219.5 million. The Government has pledged gross receipts tax revenues for the timely payment of the principal and interest on the 2006 Series Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2007.

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

The advance refunding of the 2020 through 2029 maturities of the 1999 Series A Bonds was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40.8 million and an economic gain of approximately $25.6 million.

The proceeds of the 2006 Series Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the 1999 Series A Bonds. Approximately $180 million in funds were deposited into the Escrow Fund accounts. At September 30, 2006, $162.9 million of defeased 1999 Bonds remained outstanding.

10. Long-Term Liabilities (continued)

Bonds Payable (continued)

Debt service requirements at September 30, 2006 were as follows (expressed in thousands):

Governmental Activities – Bonds

	Revenue Bonds Series 1998 A		Revenue Bonds Series 1998 C		Revenue Bonds Series 1998 D		Revenue Bonds Series 1998 E		Revenue Bonds Series 1998 Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year:										
2007	$ –	$ 15,821	$ 11,150	$ 1,640	$ 4,470	$ 714	$ –	$ 6,261	$ 15,620	$ 24,436
2008	–	15,821	11,780	1,009	4,750	434	–	6,261	16,530	23,525
2009	–	15,821	12,455	343	4,915	147	–	6,261	17,370	22,572
2010	13,135	15,480	–	–	–	–	–	6,107	13,135	21,587
2011	13,835	14,779	–	–	–	–	–	5,791	13,835	20,570
2012 - 2016	81,505	61,562	–	–	–	–	30,095	23,505	111,600	85,067
2017 - 2021	60,795	41,544	–	–	–	–	39,665	12,183	100,460	53,727
2022 - 2026	119,805	16,386	–	–	–	–	36,670	1,056	156,475	17,442
2027 - 2031	–	–	–	–	–	–	–	–	–	–
Total	$289,075	$197,214	$ 35,385	$ 2,992	$ 14,135	$ 1,295	$ 106,430	$ 67,425	$445,025	$268,926

	General Obligation Bonds Series 1999 A		Revenue Bonds Series 1999 A		Tobacco Bonds Series 2001 A		Garvee Bonds Series 2002		Revenue Bonds Series 2003 A	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year:										
2007	$ 1,005	$ 232	$ 5,285	$ 16,921	$ –	$ 673	$ 3,155	$ 497	$ 2,990	$ 13,126
2008	1,075	166	5,585	16,615	910	673	3,310	339	3,110	13,004
2009	1,140	95	5,900	16,292	1,030	673	3,475	174	3,230	12,877
2010	600	20	6,230	15,951	1,100	672	–	–	3,360	12,746
2011	–	–	6,580	15,591	1,165	672	–	–	3,495	12,609
2012 - 2016	–	–	39,475	71,048	4,005	3,363	–	–	20,090	60,275
2017 - 2021	–	–	41,640	46,452	5,410	3,362	–	–	25,840	54,363
2022 - 2026	–	–	–	–	–	2,011	–	–	33,270	46,770
2027 - 2031	–	–	–	–	8,045	1,810	–	–	64,830	36,779
2032 - 2034	–	–	–	–	–	–	–	–	104,930	8,040
Total	$ 3,820	$ 513	$ 110,695	$198,870	$ 21,665	$ 13,909	$ 9,940	$ 1,010	$265,145	270,589

	Revenue Bonds Series 2004 A		Revenue Bonds Series 2006		Tobacco Bonds Series 2006 A, B, C & D		Total governmental activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Year:								
2007	$ 2,980	$ 4,658	$ –	$ 5,340	$ –	$ –	$ 31,035	$ 65,883
2008	3,130	4,505	505	10,627	–	–	34,155	69,454
2009	3,285	4,345	1,490	10,548	–	–	36,920	67,576
2010	3,450	4,176	1,530	10,491	–	–	29,405	65,643
2011	3,625	3,999	1,580	10,429	–	–	30,280	63,870
2012 - 2016	21,025	17,013	14,555	50,219	–	–	210,750	286,985
2017 - 2021	27,020	10,829	29,565	46,006	–	–	229,935	214,739
2022 - 2026	27,190	2,946	87,710	31,104	–	–	304,645	100,273
2027 - 2031	–	–	82,555	7,871	–	–	155,430	46,460
2032 - 2034	–	–	–	–	48,145	–	153,075	8,040
Less unamortized discount	–	–	–	–	(40,855)	–	(40,855)	–
	$ 91,705	$ 52,471	$ 219,490	$182,635	$ 7,290	$ –	$1,174,775	$988,923

10. Long-Term Liabilities (continued)

Conduit Debt

In February 2004, the PFA issued private activity bonds amounting to $50.6 million to finance costs of construction of a coker plant for a refinery on the island of St. Croix. The bonds are limited obligations of PFA and will be payable solely from and are secured by a pledge and assignment of the amounts payable under the loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements.

Notes Payable

On September 7, 2006, PFA issued the Subordinate Lien Revenue Notes, Series 2006 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $4 million (the "Series 2006 Notes"). The Series 2006 Notes accrue interest monthly at a rate of 4% for 36 months. The proceeds of the Series 2006 Notes were loaned to the PG under the same terms, for the purposes of (i) financing the acquisition of fire fighting, fire suppression and fire safety equipment, (ii) training of firefighters, (iii) renovations and repairs to fire stations, and (iv) pay certain costs of issuing the Series 2006 Notes. The PG has pledged gross receipts taxes for the payment of the Notes.

Debt service requirements for the Series 2006 Notes at September 30, 2006 were as follows (expressed in thousands):

Year	
2007	$ 1,269
2008	1,332
2009	1,399
Total	$ 4,000

10. Long-Term Liabilities (continued)

Notes Payable (continued)

On September 7, 2005, PFA issued the Subordinate Lien Revenue Notes, Series 2005 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $6.35 million (the "Series 2005 Notes"). The Series 2005 Notes accrue interest monthly at a rate of 4% for 36 months. The proceeds of the Series 2005 Notes were loaned to the PG under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the Series 2005 Notes. On September 22, 2005 the PFA made a prepayment on the loan balance in the amount of $500 thousand, from unexpended loan proceeds. On October 12, 2005 the PFA made a prepayment of $200 thousand from unexpended loan proceeds. The Government has pledged gross receipts taxes for the payment of the Notes.

Debt service requirements for the Series 2005 Notes at September 30, 2006 were as follows (expressed in thousands):

Year		
2007	$	2,145
2008		1,443
Total	$	3,588

On November 20, 2002, WICO consolidated and refinanced its notes payable and obtained an additional $2 million in financing for infrastructure improvements. The consolidated loan amounted to $22.5 million at a fixed rate of 4.5% for the first four years of the 20-year term of the loan, until November 20, 2006. On June 6, 2006, WICO refinanced the outstanding loan back to the maximum of $22.5 million, at an effective interest rate of 6.2% per annum, effective November 20, 2006. This refinancing created additional working capital of approximately $2.7 million dollars to fund cruise ship pier upgrades to accommodate mega cruise ships. Subsequent to November 20, 2006, WICO will have the option (not to be exercised more than once every two years) to fix the interest rate 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 loan will be repaid in 240 consecutive monthly payments of $164 thousand (representing principal and interest) and a final payment of the outstanding principal balance plus

10. Long-Term Liabilities (continued)

Notes Payable (continued)

any unpaid interest accrued to the date of the final payment. The loan may be prepaid, in whole or in part, at any time without penalty. The revenue and lease agreements of WICO are pledged for the payment of principal and interest on the loan. WICO paid approximately $938 thousand in interest expense during fiscal year 2006.

Debt service requirements for the WICO loan at September 30, 2006 were as follows (expressed in thousands):

Year	
2007	$ 654
2008	625
2009	664
2010	706
2011	752
2012 - 2016	4,590
2017 - 2021	6,665
2022 - 2024	6,063
Total	$ 20,719

Fiduciary Funds – Notes Payable

On December 30, 2002, the pension trust fund entered into a line-of-credit agreement with a bank to provide working capital. The pension trust fund obtained a line-of-credit of $10 million, which accrues interest at a fixed interest rate of 4.8% calculated on a 360-day basis and is due and payable quarterly in arrears commencing on the first day of the fourth calendar month following the closing of the loan. The terms of the line-of-credit require the pension trust fund to repay the line-of-credit in a period of 30 consecutive days during each 12-month period. The bank retains a certificate of deposit in the amount of $10 million as security on the note payable. As of September 30, 2006, the outstanding balance on the line-of-credit agreement was $10 million.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable

Bonds payable of discretely presented component units are those liabilities that are paid out of resources pledged by such entities. These revenue bonds do not constitute a liability or debt of the PG. Bonds payable, outstanding at September 30, 2006, are as follows (expressed in thousands):

Bonds Payable	Final Maturity	Interest Rates (%)	Balance
University of the Virgin Islands:			
General obligation bonds of 2004	2035	2.02 – 5.38	$ 20,980
General obligation bonds of 1999	2029	4.75 – 5.95	22,805
Virgin Islands Water and Power Authority (Electric System)			
Revenue bonds of 2003	2023	4.00 – 5.00	69,960
Revenue bonds of 1998	2021	4.25 – 5.30	83,415
Virgin Islands Water and Power Authority (Water System)			
Revenue bonds of 1998	2017	4.90 – 5.50	33,555
Virgin Islands Port Authority			
Series A Revenue bonds of 2003	2023	5.00 - 5.25	18,005
Series B Revenue bonds of 2003	2015	3.73 - 5.43	13,145
Series C Revenue bonds of 2003	2023	4.40	10,417
Virgin Islands Housing Finance Authority:			
Revenue bonds of 1995	2025	5.50 – 6.50	2,100
Revenue bonds of 1998	2028	4.10 – 5.25	2,545
Subtotal			276,927
Plus unamortized premium			5,084
Less unamortized discount			(788)
Less deferred amount on debt refunding and reacquisition costs			(4,406)
Bonds payable, net			276,817
Less amount due within one year			(10,975)
Bonds payable, due in more than one year			$ 265,842

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Following is a schedule of changes in long-term debt for discretely presented component units for fiscal year 2006 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable:						
University of the Virgin Islands	$ 43,791	$ –	$ (553)	$ 43,238	$ 600	$ 42,638
Virgin Islands Water and Power Authority:						
Electric System	159,802	–	(4,268)	155,534	6,555	148,979
Water System	33,313	–	(1,691)	31,622	2,090	29,532
Virgin Islands Port Authority	42,034	1,274	(1,530)	41,778	1,625	40,153
Virgin Islands Housing Finance Authority	4,745	–	(100)	4,645	105	4,540
Total bonds payable, net	283,685	1,274	(8,142)	276,817	10,975	265,842
Loans payable:						
Virgin Islands Economic Development Authority	848	–	(58)	790	58	732
Virgin Islands Water and Power Authority:						
Electric System	5,600	11,000	–	16,600	–	16,600
Virgin Islands Port Authority	910	550	–	1,460	1,460	–
Virgin Islands Housing Finance Authority	1,229	–	(185)	1,044	190	854
University of the Virgin Islands	1,736		(55)	1,681	59	1,622
Total loans payable	10,323	11,550	(298)	21,575	1,767	19,808
Other long-term liabilities:						
University of the Virgin Islands	28	16	–	44	–	44
Virgin Islands Housing Authority	3,883	–	(200)	3,683	–	3,683
Virgin Islands Economic Development Authority	9,575	1,226	–	10,801	–	10,801
Juan F. Luis Hospital	23	–	(23)	–	–	–
Roy L. Schneider Hospital	1,318	191		1,509	633	876
Virgin Islands Housing Finance Authority	14,114	164	–	14,278	–	14,278
Total other long-term liabilities	$ 28,941	$ 1,597	$ (223)	$ 30,315	$ 633	$ 29,682

On December 1, 1999, the University issued the 1999 Series A Bonds. The University issued these bonds to finance a portion of the construction, furnishing, and equipping of various facilities of the University, to refund the 1994 Series A bonds issued by the University, to fund a debt service reserve fund for the 1999 Series A Bonds, and to pay certain costs issued under and secured by an indenture of trust dated. The 1999 Series A Bonds maturing on or after December 1, 2010 are subject to redemption prior to maturity at the option of the University, as a whole or in part of any date, on and after December 1, 2009, at redemption prices ranging between 100% and 102% of their principal amount plus accrued interest to the date fixed for redemption. As of September 30, 2005, the 1994 Series A Bonds were retired.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

In fiscal year 2004, the University of the Virgin Islands General Obligation Improvement Bonds, 2004 Series A (the 2004 Series A Bonds) were issued in the amount of $21.2 million under and secured by the Indenture of Trust dated as of December 1, 1999 and a First Supplemental Indenture of Trust dated as of June 1, 2004, between the University and the trustees. The Bonds were used to finance the costs of construction, furnishings, and equipping of various facilities of the University, to fund the debt service reserve fund and to pay the cost of issuance.

In June 2003, the Virgin Islands Water and Power Authority (Electric System) issued the Electric System Revenue Bonds, Series 2003, amounting to $69.9 million. The proceeds from the bonds were used to finance capital improvements, repay $18 million of then outstanding lines-of-credit, cover underwriters' costs, and establish a debt service fund.

In June 1998, the Electric System issued $110.9 million of 1998 Series A Electric System Revenue and Refunding Bonds. The proceeds from the bonds, and approximately $14 million in funds from the existing debt service and debt service funds, were used to repay outstanding line-of-credit balances, to provide for approximately $30 million in funds for the construction of certain capital projects, and to pay underwriters discount and issuance costs of approximately $1.7 million. The remaining proceeds were used to purchase direct obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining $69 million principal amount of the 1991 Series A Electric System Revenue Bonds.

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

The Bond Resolution contains certain restrictions and commitments, including the Electric System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net electric revenue, as defined, that will be at least 125% of aggregate annual principal and interest. The Electric System's net electric revenue for the fiscal year ended June 30, 2006 was 176% of the aggregate debt service as defined in the Bond Resolution.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

The Series 2003 Bonds maturing on or after July 1, 2013 are subject to redemption prior to their stated maturity date, at the option of the Electric System, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

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

In December 1998, the Virgin Islands Water and Power Authority (Water System) issued the 1998 Water System Revenue and Refunding Bonds amounting to $44.1 million. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States Government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds. At June 30, 2006, $33.6 million of the original principal amount of the defeased 1992 Series B Bonds remained outstanding.

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

The Bond Resolution contains certain restrictions and commitments, including the Water System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net water revenue, as defined, that will be at least 125% of aggregate annual principal and interest payments. The Water System's net water revenue for the fiscal year ended June 30, 2006 was 126% of the aggregate debt service.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

The 1998 Series Bonds maturing on or after July 1, 2010 are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time, at a redemption price of 101% during July 1, 2009 through June 30, 2010 and 100% thereafter. The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the water system shall be damaged, destroyed, taken, or condemned or (ii) any for-profit non-governmental investor shall acquire an ownership interest in some or all assets of the Water System.

On January 16, 2003, VIPA issued the Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable) with principal amounts of approximately $18 million and $17.4 million, respectively. VIPA is using the proceeds of the bonds to finance the dredging, rehabilitation, and construction of berthing piers for seagoing vessels and cruise ships and mixed use commercial facilities on the island of St. Thomas.

On October 20, 2003, VIPA issued the Marine Revenue Bonds Series 2003C (non-AMT), in the amount of $3 million with an authorized principal amount not to exceed approximately $10.8 million. VIPA is using the proceeds of the bonds to finance the completion of several projects of rehabilitation and construction of berthing piers and dredging for cruise and seagoing vessels on the island of St. Thomas.

The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance, and other costs as specified in the corresponding bond indentures.

The bonds' indentures also specify certain debt service coverage requirements determined from net available revenue of the Rohlsen Terminal, Airport System and the Marine Division. The provisions of each of the bonds' indentures require that rates and fees charged for the use of each facility should be sufficient to generate enough revenue to pay all operation and maintenance expenses, exclusive of depreciation and certain noncash charges, of the respective facilities, plus: (i) at least 125% of the principal and interest and redemption account sinking fund deposit requirement of each of the bonds becoming due during such year; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the capital improvements appropriations for such period. The Management of VIPA asserts that VIPA has complied with all bond indenture requirements.

10. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

VIHFA issued the 1995 A Revenue Bonds in the amount of $6.2 million, and the 1998 A Revenue Bonds, in the amount of $3 million, for the purpose of building single-family housing. The indenture agreements for the bonds require the VIHFA to deposit with the trustee the full amount of the bond proceeds, to purchase Government National Mortgage Association (GNMA) certificates. The servicer is obligated to pay the principal and interest due on the GNMA certificates to the trustee in an amount equal to the scheduled principal and interest payments of the underlying mortgages. All mortgage loans issued by the VIHFA must be originated by the participants and secured by a first priority mortgage lien on the applicable single-family residences.

Fixed maturities required to pay principal and interest on discretely presented component units' bonds payable with fixed maturities at September 30, 2006 are as follows (expressed in thousands):

Year	Principal	Interest	Total
2007	$ 10,975	$ 14,179	$ 25,154
2008	11,518	14,132	25,650
2009	12,093	13,582	25,675
2010	12,718	12,991	25,709
2011	13,369	11,795	25,164
2012 - 2016	65,284	49,008	114,292
2017 - 2021	72,495	29,457	101,952
2022 - 2026	41,550	14,440	55,990
2027 - 2031	25,580	6,027	31,607
2032 - 2035	11,345	1,272	12,617
Total	276,927	$ 166,883	$ 443,810
Plus unamortized premium	5,084		
Less unamortized discount	(788)		
Less deferred amount on debt refunding and reacquisition costs	(4,406)		
Bonds payable, net	$ 276,817		

11. General Tax Revenue

For the year ended September 30, 2006, general tax revenue of the PG consisted of the following (expressed in thousands):

	General Fund	PFA Debt Service Fund	PFA Capital Projects	Other Governmental Funds	Total
Income taxes	$ 507,061	$ –	$ –	$ –	$ 507,061
Real property taxes	16,570	–	–	19,916	36,486
Gross receipts taxes	–	139,912	2,250	250	142,412
Other taxes	119,113	47,131	–	9,383	175,627
Tax revenue	$ 642,744	$ 187,043	$ 2,250	$ 29,549	861,586
Tax revenue not recognized on the modified accrual basis					10,522
Total tax revenue - government-wide					$ 872,108

12. Commitments and Contingencies

Primary Government

The current labor relations environment of the Government is defined by 13 distinct labor organizations subject to approximately 26 collective bargaining agreements. Fourteen bargaining units are without collective bargaining agreements. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and nonprofessional workers in different departments throughout the Government, represented by different unions. Of the approximately 9,600 government workers, including employees of the executive branch of the Government, approximately 7,200 belong to unions. The present collective bargaining statute requires binding arbitration for certain classified employees in the event of an impasse during salary negotiations between the Government and any union. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision. For other classified employees, the Government must decide to go to impasse or to enjoin any strike. The Government has contractual liabilities for retroactive union arbitration salary increases estimated at $272 million accruing from fiscal years 1993 through 2006. Pursuant to Title 24 of the V.I. Code Section 374(h), no such contractual amount is due until appropriation of funds is made

12. Commitments and Contingencies (continued)

Primary Government (continued)

by the Legislature. Upon action of the Legislature, the General Fund will have the responsibility to satisfy the obligations arising from the retroactive wages. Until such time, the liability is recorded as a long-term debt in the governmental activities column in the government-wide financial statements.

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Loans received are described in note 9(c). Monetary and nonmonetary federal financial assistance amounted to approximately $121.1 million and $25.3 million, respectively, for the year ended September 30, 2006.

Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under OMB Circular A-133. Disallowances as a result of these audits may become liabilities of the Government.

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

On September 23, 2002, the Government entered into a three-year compliance agreement with the U.S. Department of Education requiring that the Government develop integrated and systemic solutions to problems in managing its federally funded education programs. The compliance agreement focuses on the areas of program design and evaluation, financial management, human capital, and property management and procurement. The compliance agreement expired on September 23, 2005. The Government had not fully complied with all terms and conditions of the compliance agreement. The U.S. Department of Education subsequently implemented a special condition for the Government to designate a third-party fiduciary to administer U.S. Department of Education grants. The terms and conditions of the original compliance agreement have been extended until the Government is in full compliance with the agreement.

12. Commitments and Contingencies (continued)

Primary Government (continued)

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government in excess of $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to $250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately $16 million for awarded and anticipated unfavorable judgments as of September 30, 2006. Management believes that the ultimate liability in excess of amounts provided would not be significant.

Changes in the reported estimated litigation payable resulted from the following activity (expressed in thousands):

	Beginning Fiscal Year Liability	Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2005 - 2006	$ 23,043	$ (7,209)	$ (1,813)	$ 14,021

12. Commitments and Contingencies (continued)

Primary Government (continued)

The breakdown of the estimated litigation payable at September 30, 2006 is as follows (expressed in thousands):

Governmental Activities		
Current portion of estimated litigation payable	$	450
Long-term portion of estimated litigation payable		13,571
	$	14,021

As of September 2002, the Government was a defendant in a lawsuit regarding the assessment of property taxes. Under the lawsuit, taxpayers asserted that properties should be assessed at actual value in accordance with the Organic Act of 1933. The U.S. District Court agreed with the plaintiffs and, in May 2003, imposed an injunction on the collection of real property taxes for years subsequent to 1998. The Government complied with the Court order to develop a plan to implement the new valuation method, and the injunction was lifted in August 2003. Revised property assessments were mailed to taxpayers in June 2007.

State and federal laws and regulations require the Government to place a final cover on its landfill sites when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $32.7 million reported as landfill closure and post-closure care liability at September 30, 2006, represents the cumulative amount recorded to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care of $8 million as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2006.

12. Commitments and Contingencies (continued)

Primary Government (continued)

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

Landfill	Estimated Used Capacity	Estimated Closure Date
Bovoni	61%	2020
Angilla	88%	2010
Susannaberg	100%	1993

Actual cost may be higher due to inflation, changes in technology, or changes in regulations. The Government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The Government began making annual contributions to a trust in fiscal year 2007 to finance closure and post-closure costs. The Government expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation requires that the new St. Croix wastewater treatment plants be completed by the end of 2005 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2006. The cost of both facilities is estimated at approximately $50 million. The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the

12. Commitments and Contingencies (continued)

Primary Government (continued)

Stipulation. In January 2004, the Government's Legislature authorized the creation of the Virgin Islands Waste Management Authority (WMA) for the purpose of meeting environmental requirements of waste treatment in the U.S. Virgin Islands. In December 2004, the PFA issued revenue bonds amounting to $94 million for the purpose of constructing and rehabilitating wastewater treatment plants noted above.

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System permit for its St. Croix distillery operations provided that the Government make certain funding available to (i) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge, (ii) identify practicable, available, reliable, and cost-effective potential mitigation measures, and (iii) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the V.I. Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate. Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to $6 million in the aggregate, commencing on October 13, 2003. In June 2004, the Government entered into a three years contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA.

In September 2004, the Government became a defendant in a lawsuit regarding the assessment of franchise taxes. Under the lawsuit, taxpayers asserted that franchise taxes should be assessed in accordance with Title 13 Virgin Islands Code Section 531(a). The plaintiff taxpayers interpret the definition of "capital stocks used in conducting business in the Virgin Islands" in the V.I. Code as tax collected only on the par value of the stock, while the Government's position is that the amount allocated should be over the par value and additional paid-in capital upon a subsequent reorganization. The Government also imposed a six-year statute of limitations on tax refund claims against the Government. Management believes that the ultimate liability of this case would not have a material adverse impact on the Government's overall financial position as reported in the government-wide financial statements.

12. Commitments and Contingencies (continued)

Discretely Presented Component Units

In September 1989, WAPA electric facilities were damaged by Hurricane Hugo. WAPA reconstructed the facilities with proceeds from insurance and FEMA. Subsequent to the receipt of funds, FEMA deobligated approximately $7.9 million in questioned costs. Approximately $2.6 million of these questioned costs related to an oil spill that was subsequently settled with FEMA. During 1998, WAPA submitted a second appeal for $4.4 million of the remaining questioned costs, and agreed to refund approximately $900 thousand. During 1999, FEMA denied the second appeal and formally closed the disaster claim. WAPA has recorded a liability for $5.3 million related to the questioned costs. FEMA has not made a formal request for repayment of the funds.

In September 2004, WAPA electric facilities sustained damages amounting to $1.3 million due to Tropical Storm Jeanne. WAPA reported $978 thousand as a FEMA claim receivable for the year ended June 30, 2006.

WAPA estimates that capital expenditures in connection with continuing capital improvements will be approximately $82.8 million for the Electric System and $7.2 million for the Water System during the year ended June 30, 2007.

The VIHA terminated a development contract in September 2001 pursuant to a clause in the contract that provided for termination for convenience. The other party has sued and claims damages in excess of $7 million. The Authority has filed a counterclaim. It is not possible to predict the eventual outcome of this case nor estimate any amount or range of potential loss in the event of an unfavorable outcome.

Several former employees have individually filed suits against the VIHA for wrongful discharge over the period 1997 through 2002. None of the cases are resolved and it is not possible to predict the eventual outcome, nor estimate the amount or range of potential loss in the event of an unfavorable outcome.

A subcontractor has sued the VIHA for nonpayment for work done in 2000. It is not possible to predict the eventual outcome nor estimate the amount or range of potential loss in the event of an unfavorable outcome.

12. Commitments and Contingencies (continued)

Discretely Presented Component Units (continued)

In 2002, the Federal Aviation Administration (FAA) conducted an on-site wildlife evaluation of the St. Croix landfill, which is located next to the St. Croix airport. The FAA determined that the landfill posed an environmental and navigational threat to the airport due to flocks of birds that reside in the landfill area. The FAA may require VIPA to repay $9.3 million in federal grants and has refused further discretionary grants for the airport until VIPA shows progress toward closing the landfill. The landfill is under the jurisdiction of the PG. The PG has negotiated a remediation plan with FAA to close the landfill within the next four years. FAA accepted the plan, if such measures are implemented.

In connection with the purchase of lands adjacent to the airport, VIPA was awarded federal financial assistance in 2002 amounting to $8 million under a Real Property Acquisition Relocation Assistance Program. VIPA is in noncompliance with certain federal requirements of the assistance program. Noncompliance with requirements of federal financial assistance programs may result in a refund of the funds granted. VIPA management believes that noncompliance instances should not materially affect VIPA's financial position.

In 2006, the JFL Medical Center entered into an agreement for the construction of a Cancer Institute on the island of St. Croix. As of September 30, 2006, the Medical Center had outstanding contracts and commitments of $13 million.

WAPA, VIPA, and other discretely presented component units are presently a defendant or codefendant in various lawsuits. The financial managers of the component units have advised the PG that any adverse outcome involving a material claim is expected to be substantially covered by insurance. Government property is exempt from lien, levy, or sale as a result of any judgment under the Virgin Islands Code.

13. Retirement Systems

Plan Description

GERS is the administrator of a cost-sharing multiple-employer defined-benefit pension plan established as of October 1, 1959 by the Government to provide retirement, death, and disability benefits to its employees. The following description of the plan is provided for general information purposes only. Refer to the actual text of the retirement law in the V.I. Code, Title 3, Chapter 27 for more complete information. Regular employees are eligible for a full-service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Members who are considered "safety employees," as defined in the V.I. Code, are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and completed six years of credited service or earned at least six years of credited service as a member of the Legislature.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation is determined by averaging the three highest years of salary the member earned within the last 10 years of service. The maximum annual salary that can be used in this computation is $65,000 except for senators and judges, whose annual salary is used. The annuity payment to retirees 60 years or older increases by 1.5% of the original amount on July 1 of each year after the first year of payments.

GERS is a blended component unit included in the financial reporting entity and is presented as a pension trust fund of the PG. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees' Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, Veterans Drive, St. Thomas, VI 00802.

Funding Policy

Contributions to GERS are made by the Government and the members. Government and members contributions are not actuarially determined but are set by statute. The Government and members' contributions together with the income of GERS should be sufficient to provide an adequate actuarially determined reserve for the benefits prescribed by the VI Code.

13. Retirement Systems (continued)

Funding Policy (continued)

The contributions required to fund GERS on an actuarial reserve basis are calculated periodically by the GERS actuarial consultant. The actuarial valuation as of September 30, 2003, performed on an entry age basis, indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of GERS on an actuarial basis, as required by law.

The Government's required contribution for the year ended September 30, 2006 was 14.5% of the members' annual salary. Since April 1, 1991, required member contributions are 8% of annual salary for regular employees, 9% for senators, 11% for judges, and 10% for Act 5226 eligible employees. Through September 30, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective June 29, 2000, legislation was passed that provided for 4% annual interest on refunded contributions. The Government's contractually required contributions, actual contributions made, and percentage contributed to the plan for the years ended September 30, 2006, 2005, and 2004, have been estimated based on the 2003 actuarial valuation as follows (expressed in thousands):

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2004	$ 54,085	$ 54,085	100%
2005	$ 51,542	$ 51,542	100%
2006	$ 65,061	$ 65,061	100%

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

13. Retirement Systems (continued)

Funding Policy (continued)

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

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the three years used to compute the employee's average compensation figure plus a sum of $5,000. Based on this calculation, the amount was $26.3 million as of September 30, 2006. As of September 30, 2006, GERS has received $25.9 million of such amount.

The actuaries of GERS have determined that the specific funding provided under the Act is inadequate to cover the costs of the program. GERS is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law, which provides that the Primary Government will compensate GERS for the costs of any special early retirement program.

The University has two retirement plans in which all eligible employees are required to participate. The Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. As of September 30, 2006, 241 faculty members and other employees were TIAA-CREF participants. The number of active participants from the University participating in GERS as of September 30, 2006 was 275. Total contributions made by the University to TIAA-CREF and GERS participant accounts amounted to $1.9 million and $1.2 million, respectively.

14. Liquidity

At September 30, 2006, the Government had an unrestricted net deficit in the governmental activities amounting to $330.1 million, mostly attributable to approximately $1.6 billion in long-term debt that was issued to provide resources for working capital and other noncapital related purposes. The Government has initiated specific actions to improve its liquidity and cash flows through the issuance of long-term debt, engaging a consulting firm to assist in its efforts to develop a series of detailed revenue enhancement and expenditure reduction initiatives and the enactment of certain laws directed toward improving the Government's financial situation.

In 1999, the Government and the U.S. Department of Interior (DOI) entered into a memorandum of understanding (the MOU) whereby the Government agreed to use its best efforts to undertake certain deficit reduction initiatives. The Department of Interior agreed to provide additional financial assistance and financial incentives if the initiatives were successfully implemented. The deficit reduction measures were not implemented to the satisfaction of the Department of Interior as noted in an audit report released by DOI in January 2003. Subsequent negotiations to extend the MOU were not successful and the agreement lapsed in fiscal year 2006.

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

15. Restatements of Net Assets and Fund Balances

Primary Government – Governmental Funds

The beginning fund balance of the General Fund was restated by $62.9 million due to the recognition of an allowance for component unit receivables amounting to $30.9 million and the reclassification of certain revolving funds amounting to $32 million eliminated in prior years for financial reporting.

15. Restatements of Net Assets and Fund Balances (continued)

Primary Government – Governmental Funds (continued)

The beginning fund balance of the General Fund was adjusted for transfers to component units from certain revolving funds of the Government (in thousands):

General Fund	As Previously Reported	Adjustments	As Restated
Fund balance	$ 180,102	$ (62,872)	$ 117,230

Beginning net assets of governmental funds were restated to correct: (1) an error in the accrued union arbitration liability calculation that resulted in a reduction of $132.7 million, (2) an error in the accrued federal questioned grant expenditures that resulted in a reduction of $6 million, (3) a reclassification of certain funds for financial reporting resulting in a decrease in net assets of $62.9 million and (4) a duplication of capital assets recorded in a discretely presented component units of $89.6 million, for a net adjustment of $13.8 million as follows:

	Beginning Net Assets		
	As Previously Reported	Adjustments	As Restated
Net deficit	$ (192,332)	$ (13,768)	$ (206,100)

Primary Government – Business Type Funds

Beginning net assets of other business-type funds were restated due to the elimination of a revolving fund deficit amounting to $8.4 million, which should have been included in the general fund.

Beginning net assets of the Virgin Islands Unemployment Insurance Fund (VIESA) was restated due to identification of Reed Act revenues from prior years amounting to $2.2 million, which had been deferred and should have been recognized as revenues in prior years.

15. Restatements of Net Assets and Fund Balances (continued)

Primary Government – Business Type Funds (continued)

Beginning net assets of business-type funds of the Government were restated to follows (in thousands):

Business-Type Funds	As Previously Reported	Adjustments	As Restated
Other business-type funds:			
Funds reclassified for financial reporting	$ 2,294	$ 8,401	$ 10,695
Unemployment insurance:			
Reed Act grants expended	$ 30,046	$ 2,161	$ 32,207
Business-type activities	$ 64,892	$ 10,562	$ 75,454

Component Units

Beginning net assets of four discretely presented component units were restated in accordance with financial accounting standard APB No. 20, to correct material errors identified in prior years as follows (expressed in thousands):

Component Unit	As Previously Reported	Adjustment	As Restated
Virgin Islands Housing Authority	$ 63,818	$ 6,577	$ 70,395
Virgin Islands Housing Finance Authority	27,179	9,097	36,276
Roy L Schneider Medical Center	72,429	(315)	72,114
Magens Bay Authority	3,878	(43)	3,835
Waste Management Authority	–	3,169	3,169
Other component units	493,205	–	493,205
Net Assets	$ 660,509	$ 18,485	$ 678,994

16. Subsequent Events

Primary Government

In August 2006, the PG entered into a contract with an independent contractor to serve as a third-party administrator of federal education grants. This administration of grants began October 1, 2006. The contract is the result of an agreement with the U.S. Department of Education, following the conclusion of a three year compliance agreement which expired in September 2005.

In November 2006, the U.S. Department of the Treasury issued final regulations determining residency for U.S. territories and possessions as required by the American Jobs Creation Act passed in October 2004. The PG continues to pursue further revisions to these regulations.

In December 2006, the PG entered into a marketing agreement with local rum makers. Under the terms of the agreement, rum makers will make an initial investment of $61 million to promote Virgin Islands rum products. The PG committed to pay 35 percent (35%) of additional excise tax revenues received from the federal government resulting from the marketing campaign.

In December 2006, the federal government passed a two-year extension of the PG's rum tax rebate provision. Under the terms of the extension, the per proof gallon rebate of $13.25 will be retroactive to January 1, 2006 and continue through December 31, 2007. In November 2007 the rebate provision was again extended through December 2009.

In March 2007, the PG authorized an extension of a $104 million private activity bond allocation used to upgrade capital infrastructure at the Hovensa oil refinery located on the island of St. Croix.

In June 2007, the President signed legislation providing authority to the PG to administer the territorial property tax system.

In July 2007, the US District Court ruled the four percent (4%) personal use tax assessed on items valued at more than $1,000 and shipped to the territory as unconstitutional. The PG is contesting this ruling.

16. Subsequent Events (continued)

Primary Government (continued)

In January 2008, the PFA approved the issuance of $108 million dollars in private activity bonds to be issued on behalf of the HOVENSA oil refinery. These bonds will be issued utilizing the 2007 and 2008 annual tax exempt cap for the PFA

In February 2008, the federal government passed an Economic Stimulus Act providing taxpayer rebates ranging from $300 to $1,200 depending on taxpayer income and filing status. Under the terms of the Act, the PG will be reimbursed by the federal government for rebates provided to taxpayers. Payments to taxpayers were sent out beginning in June 2008.

In March 2008, the PG passed legislation introducing new property tax rates. Property tax assessments for 2006, and for 2007, have been delayed pending this legislation.

Component Units

In June 2007, the Virgin Islands Water and Power Authority (WAPA) issued the Electric System Subordinated Revenue Series 2007A Bonds amounting to $57.6 million for capital improvement projects.

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