BASIC FINANCIAL STATEMENTS

Government of the United States Virgin Islands
Year Ended September 30, 2010
With Report of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Government of the United States Virgin Islands

Basic Financial Statements

Year Ended September 30, 2010

Table of Contents

Ernst & Young LLP
1000 Scotiabank Plaza
273 Ponce de León Avenue
San Juan, PR 00917-1951

Tel: 787 759 8212
Fax: 787 753 0808
www.ey.com

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, 2010, 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); 1.9%, 0.8% and 2.2%, respectively, of the assets, net assets/fund balance and revenue/additions of the aggregate remaining fund information, and \$2.4 billion of the \$2.3 billion assets and 8.4% of the revenues of the governmental activities; 79.8% and 12.3%, respectively, of the assets, and revenue of the business-type activities, respectively.

- The Virgin Islands Lottery (V.I. Lottery), a nonmajor enterprise fund, which represents 0.4%, and 3.3%, respectively, of the assets, and revenues of the aggregate remaining fund information, and 10.4%, 13.3%, and 25.2%, respectively, of the assets, net assets, and revenue of the business-type activities. The V.I. Lottery net deficit represents \$1.2 million of the \$1.4 billion net asset/fund balance of the aggregate remaining fund information.

- The Tobacco Settlement Financing Corporation, a blended component unit, which represents 0.2%, 0.2%, and 0.4%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information, and 1.0%, 0.8%, and 0.2%, respectively, of the assets, net deficit, and revenue 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 92.0%, 95.5%, and 37.3%, 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 (VIPTS), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), 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 (WMA), discretely presented component units, which collectively represent 29.0%, 32.0%, and 37.0%, 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 thereon 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 six paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the other auditors on the 2010 financial statements of VIHFA, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether assets of $12.5 million transferred from Department of Planning and Natural Resources were fairly stated.

The report of other auditors on the 2010 financial statements of VIPTS, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $12.9 million were fairly stated.

The report of other auditors on the 2010 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because GERS maintained investments in a limited partnership valued at $48.7 million whose fair value has been estimated in the absence of a readily determinable fair value. GERS' estimate was 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 was not determinable.

The report of other auditors on the 2010 financial statements of the V.I. Lottery, a nonmajor enterprise fund, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether the amount due to the general fund of $4.5 million was fairly stated.

The report of other auditors on the 2009 financial statements of WMA, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets amounting $4.7 million were fairly stated.

The Government did not maintain the requisite documentation to support its accrued compensated absences liability, retroactively pay liability, and its landfill closure and post-closure liability of $60.1 million, $173.3 million, and $231.8 million, respectively. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances in the governmental activities were required.

The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities, government insurance fund, and aggregate remaining fund information as of and for the year ended September 30, 2010 may have been affected by this condition.

Because of the matters discussed in the preceding 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, 2010. In addition, we do not express an opinion on the changes in financial position of the business-type activities, government insurance fund, and aggregate remaining fund information and, where applicable, cash flows for the year ended September 30, 2010.

In our opinion, based on our audit and the reports 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) assets of $12.5 million in the financial statements of VIHFA, (2) capital assets of $12.9 million in the financial statements of VIPTS, (3) amount due to the general fund of $4.5 million in the V.I. Lottery financial statements, and (4) capital assets amounting to $4.7 million in the WMA financial statements were fairly stated as described above, and the effect of the adjustments, if any, as might be determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether the accrued compensated absences liability, retroactively pay liability, and landfill closure and post-closure liability in the governmental activities were fairly stated as described in paragraph eight above, the financial statements referred to previously, present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and the governmental activities, respectively, of the Government of the United States Virgin Islands, as of September 30, 2010, and the respective changes in financial position 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 above present fairly, in all material respects, the respective financial position of each major fund of the Government of the United States Virgin Islands, as of September 30, 2010, and the respective changes in financial position of the general fund, PFA debt service fund, PFA capital projects fund, and WICO; 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 17 to the financial statements, as of October 1, 2010, the component units' beginning net assets was restated by $14.0 million.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2012, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, and the schedules of funding progress and employer contributions listed under required supplementary information in the table of contents are not a required part of the basic financial statements, but are 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

November 29, 2012

Government of the United States Virgin Islands

Management's Discussion and Analysis

Years Ended September 30, 2010 and 2009

Introduction

The following management's 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, 2010 and 2009.

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 (deficit) 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 and results of operations similar to that presented by most private-sector companies.

The statement of net assets (deficit) 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, revenues, 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 funds 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 fund 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 fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by the 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.

The governmental fund activities are reported in a separate balance sheet and statement of revenues, expenditures, and changes in fund balances. Additionally, the government presents a reconciliation of the statement of revenues, expenditures, and change in fund balances, to the statement of activities.

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 WICO fund and the Unemployment Insurance Fund are major proprietary funds.

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

The Unemployment Insurance Fund is a federally mandated program to manage unemployment insurance.

The proprietary fund activities are reported in a separate statement of net assets (deficit), statement of revenues, expenditures, and changes in fund net assets (deficit) and statement of cash flows.

Fiduciary 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 experienced several financial challenges during the fiscal year ended September 30, 2010. The PG was unable to issue property tax assessments for fiscal year 2010, or the previous four fiscal years (2006-2009) due to a court injunction related to a class action lawsuit filed by commercial taxpayers.

The PG and its component units continue to experience a downturn in the economy following the economic recession of 2008.

The Government has initiated several actions to offset the negative impact of these financial challenges. The Government continues to promote environmentally safe industries into the United States Virgin Islands (USVI). The Government is participating in the American Recovery and Reinvestment Act, obtaining: 1) federal grants for energy, health, education and other construction projects, and 2) federal loss recovery for tax initiatives such as the Making Work Pay tax credit. To improve cash flow, the PG overhauled the property tax assessment and valuation system, proposed increases to locally assessed taxes, and enacted expenditure reduction initiatives.

In fiscal year 2010, the Government issued the 2010 Series A and B Bonds amounting to $399.1 million to obtain working capital for various operating expenses and refinance a portion of the outstanding 2009 B1 and B2 loan notes. The Government issued the 2009 Series A Revenue Bonds amounting to $39.2 million to finance the cost of a wastewater treatment facility and renovations at the Cruzan VIRIL, Ltd. Rum distillery on the island of St. Croix. The 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds amounting to $458.8 million were issued to refund the 1998 series A Bonds and fund certain capital projects. The Government borrowed, during fiscal year 2010, $13.1 million from the U.S. Treasury to fund the Unemployment Trust Fund, which became insolvent during 2009.

Financial Analysis of the Primary Government

Total assets of the PG as of September 30, 2010 and 2009, were approximately $1.9 billion and $1.8 billion, respectively, an increase of approximately $136.3 million. Total liabilities as of September 30, 2010 and 2009, were $3.0 billion and $2.6 billion, respectively, an increase of approximately $352.8 million.

As of September 30, 2010, the PG net deficit of $953.2 million consisted of $637.8 million invested in capital assets, net of related debt; $230.6 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 $1.8 billion. As of September 30, 2009, the PG net deficit of $737.0 million consisted of $209.0 million invested in capital assets, net of related debt; $195.0 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 $1.14 billion.

For the fiscal year ended September 30, 2010, the PG earned program and general revenue amounting to $1.3 billion and reported expenses of $1.6 billion, resulting in a decrease in net assets of $205.9 million.

For the fiscal year ended September 30, 2009, the PG earned program and general revenue amounting to $1.0 billion and reported expenses of $1.6 billion, resulting in a decrease in net assets of $555.6 million.

Overall, revenue increased by approximately $346.3 million in fiscal 2010, when compared to fiscal 2009, mainly due to an increase in tax revenue of $280.8 million, and an increase in operating and capital grant and contributions of approximately $110.5 million; offset by a reduction in other general revenue of $42.0 million. Expenses increased in fiscal 2010 when compared to fiscal 2009, by $7.2 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, 2010 and 2009

(In thousands)

	Governmental activities		Business-type activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Assets						
Current assets	**$ 1,069,987**	$ 989,720	**$ 5,846**	$ 15,182	**$ 1,075,833**	$ 1,004,902
Capital assets, net	**828,632**	755,256	**51,294**	54,353	**879,926**	809,609
Other assets	**47,345**	28,175	**919**	208	**48,264**	28,383
Total assets	**1,945,964**	1,773,151	**58,059**	69,743	**2,004,023**	1,842,894
Liabilities						
Long-term debt outstanding	**2,476,792**	1,823,034	**56,933**	33,492	**2,533,725**	1,856,526
Other liabilities	**413,130**	689,902	**10,413**	33,176	**423,543**	723,078
Total liabilities	**2,889,922**	2,512,936	**67,346**	66,668	**2,957,268**	2,579,604
Net Assets						
Invested in capital assets, net of related debt	**234,576**	176,103	**30,394**	32,944	**264,970**	209,047
Restricted	**230,067**	194,983	**2,402**	277	**232,469**	195,260
Unrestricted	**(1,408,601)**	(1,110,871)	**(42,083)**	(30,146)	**(1,450,684)**	(1,141,017)
Total net assets (deficit)	**$ (943,958)**	$ (739,785)	**$ (9,287)**	$ 3,075	**$ (953,245)**	$ (736,710)

Changes in Net Assets (Deficit) – Primary Government

In Thousands	Governmental Activities 2010	Governmental Activities 2009	Business-type Activities 2010	Business-type Activities 2009	Total 2010	Total 2009
Revenue:						
Program revenue:						
Charges for services	**$ 45,511**	$ 51,216	**$ 51,517**	$ 48,861	**$ 97,028**	$ 100,077
Operating grants and contributions	**295,577**	200,146	**25,257**	12,415	**320,834**	212,561
Capital grants and contributions	**29,541**	27,325	**–**	–	**29,541**	27,325
General revenue:						
Taxes	**863,063**	582,239	**–**	–	**863,063**	582,239
Interest and other	**36,525**	54,448	**108**	490	**36,633**	54,938
Other general revenue	**2,136**	25,826	**–**	–	**2,136**	25,826
Total revenue	**1,272,353**	941,200	**76,882**	61,766	**1,349,235**	1,002,966
Expenses:						
General government	**661,014**	706,559	**–**	–	**661,014**	706,559
Public safety	**71,526**	67,045	**–**	–	**71,526**	67,045
Health	**160,679**	154,599	**–**	–	**160,679**	154,599
Public housing and welfare	**139,689**	124,498	**–**	–	**139,689**	124,498
Education	**277,003**	287,779	**–**	–	**277,003**	287,779
Transportation and communication	**70,637**	50,019	**–**	–	**70,637**	50,019
Culture and recreation	**9,470**	10,784	**–**	–	**9,470**	10,784
Interest on long-term debt	**87,208**	61,301	**–**	–	**87,208**	61,301
Unemployment insurance	**–**	–	**26,005**	42,389	**26,005**	42,389
West Indian Company	**–**	–	**11,476**	9,855	**11,476**	9,855
Workmen's compensation	**–**	–	**13,835**	8,876	**13,835**	8,876
V.I. Lottery	**–**	–	**20,495**	22,331	**20,495**	22,331
Other	**–**	–	**16,733**	12,566	**16,733**	12,566
Total expenses	**1,477,226**	1,462,584	**88,544**	96,017	**1,565,770**	1,558,601
Changes in net assets (deficit) before transfers	**(204,873)**	(521,384)	**(11,662)**	(34,251)	**(216,535)**	(555,635)
Transfers	**700**	700	**(700)**	(700)	**–**	–
	700	700	**(700)**	(700)	**–**	–
Change in net deficit	**(204,173)**	(520,684)	**(12,362)**	(34,951)	**(216,535)**	(555,635)
Net assets (deficit) at beginning of year, as restated	**(739,785)**	(219,101)	**3,075**	38,026	**(736,710)**	(181,075)
Net assets (deficit) at end of year	**$ (943,958)**	$ (739,785)	**$ (9,287)**	$ 3,075	**$ (953,245)**	$ (736,710)

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 27 of the financial statements, follows:

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

Year Ended September 30, 2010
(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Total revenues	$ 669,887	$ 669,887	$ 590,979	$ (78,908)
Total expenditures	811,803	838,280	939,540	(101,260)
Deficiency of revenues over expenditures	(141,916)	(168,393)	(348,561)	(180,168)
Other financing sources, net	174,613	168,393	192,485	24,092
Excess (Deficiency) of revenues and net other financing sources over expenditures	$ 32,697	$ –	$ (156,076)	$ (156,076)

For fiscal 2010, the PG realized an unfavorable revenue variance of $78.9 million mainly due to a reduction in tax collections of $65.0 million. The PG realized a $180.2 million unfavorable expenditure variance due to increase in general government expenditures. The PG realized a $167.1 million variance in other financing sources due to the issuance of revenue bonds.

Capital Assets

Capital assets additions during fiscal 2010 amounted to $82.2 million for governmental activities and $714 thousand for business-type activities.

Capital assets additions during fiscal 2009 amounted to $88.6 million for governmental activities and $5.2 million for business-type activities.

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

Capital Assets – Primary Government

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**
Land and improvements	**$ 195,347**	$ 192,711	**$ 5,495**	$ 5,495	**$ 200,842**	$ 198,206
Building and improvements	**397,335**	396,392	**66,104**	65,026	**463,439**	461,418
Machinery and equipment	**135,224**	124,882	**9,193**	8,420	**144,417**	133,302
Infrastructure	**253,240**	222,353	**–**	–	**253,240**	222,353
Construction in progress	**168,330**	111,594	**275**	1,640	**168,605**	113,234
Total capital assets	**1,149,476**	1,047,932	**81,067**	80,581	**1,230,543**	1,128,513
Less accumulated depreciation	**(320,844)**	(292,676)	**(29,773)**	(26,228)	**(350,617)**	(318,904)
Total capital assets, net	**$ 828,632**	$ 755,256	**$ 51,294**	$ 54,353	**$ 879,926**	$ 809,609

Note 10 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, 2010:

Primary Government – Bonds Payable

(In thousands)

Bonds Payable	Maturity	Rates (%)	Balance
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	$ 399,050
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	39,190
2009 Series A-1, A-2, B & C Revenue and Refunding Bonds	2040	3.00 - 5.00	458,840
2009 Series A Revenue Bonds (Diageo)	2038	6.00 - 6.75	250,000
2006 Series A Revenue Bonds	2029	3.50 - 5.00	215,965
2006 Series A,B,C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2004 Series A Revenue Bonds	2025	4.00 - 5.25	78,860
2003 Series A Revenue Bonds	2033	4.00 - 5.25	252,455
2001 Series A Tobacco Bonds	2031	5.00	16,845
1999 Series A Revenue Bonds	2020	4.20 - 6.50	87,695
Subtotal			1,806,190
Deferred costs on refundings			(15,834)
Bond premium			32,788
Bond discount			(6,202)
Bond accretion			2,438
Total			$ 1,819,380

Note 11 provides detailed information regarding all bonds of the PG.

In fiscal year 2010, the Government issued the: (1) 2010 Series A and B Revenue Bonds amounting to $399.1 million to provide working capital to the PG and to refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (2) 2009 Series A Revenue Bonds (the Cruzan Bonds) amounting to $39.2 million to finance the costs of a wastewater treatment facility and renovations at the Cruzan VIRIL, Ltd. facility, and (3) 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds amounting to $458.8 million to refund the 1998 Series A bonds and to fund certain capital projects. The current refunding resulted in savings of approximately $35.9 million and an economic gain of approximately $35.6 million. During fiscal year 2010, the Government also borrowed $13.1 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

In fiscal year 2009, the Government issued the: (1) 2009 Series Bonds amounting to $250.0 million to finance a rum production and maturation warehouse, (2) Series 2009 Notes amounting to $8.0 million to finance the purchase of police communication equipment, (3) Subordinated Lien Revenue Bond Anticipation Notes amounting to $100 million with an agent lender bank, and $50.0 million with a syndicate lender bank to provide working capital to the PG, and (4) the Tax Increment Revenue Bond Anticipation Note Purchase Agreement amounting to $15.7 million, (of which $10.0 million had been drawn as of September 30, 2010) to finance the development costs of a shopping complex on the island of St. Croix. During fiscal year 2009, the Government also borrowed $3.0 million from the U.S. Treasury to fund the Virgin Islands Unemployment Trust Fund which became insolvent in July 2009.

The PG made bond principal payments on all outstanding general and special revenue bonds amounting to $412.1 million during fiscal year 2010 and $37.6 million during fiscal year 2009.

The Government's bonds, as of November 30, 2012, carry insured ratings of "BBB" and "BBB+" from Fitch Ratings and Standard & Poor's, 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, 2010 and 2009
(In millions)

	2010	2009
Accrued compensated absences	**$ 60**	$ 54
Retroactive union arbitration	**232**	232
Litigation	**21**	18
Post employment benefits	**145**	94
Landfill closure and post closure costs	**173**	171
Total other liabilities	**$ 631**	$ 569

Economic Condition and Outlook

The PG continues its recovery efforts from the economic recession of 2008 through a combination of revenue initiatives and budgetary restraint on expenditures.

Revenue Initiatives

The PG has implemented several initiatives to create jobs and promote economic growth including: providing economic incentives to attract a major rum distiller (Diageo) and retain another rum distiller (Cruzan Rum), enactment of tax increment financing legislation, continued promotion of tourism through increased marketing activities, and participation in grant awards through the American Recovery and Reinvestment Act (ARRA). The PG has also implemented several tax initiatives including: ARRA reimbursement of losses resulting from the Making Work Pay income tax credit, implementation of gross receipts tax amnesties, and proposed increases of local taxes.

In connection with a real property tax case instituted against the PG in the U.S. District Court of the Virgin Islands, the PG was enjoined from appraising and assessing any real property taxes until it modified its system of appraisal to comply with certain court mandates. The PG retained a consultant to modify its system of appraisal and to perform reassessment of properties. This project was completed in fiscal 2009. The U.S. District Court also required an over-haul of the tax review board responsible for hearing tax assessment reviews. The PG is taking steps to comply with the Court order. In fiscal 2010, the PG passed legislation authorizing the issuance of property taxes at the 1998 assessment level. In January 2011, the injunction was lifted and property tax bills were issued for 2007 and 2008 during 2011.

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 on appeal.

Budgetary Control of Expenditures

The PG faced the challenge of carryforward liabilities from prior fiscal years and increasing expenditures in fiscal 2010.

Carryforward liabilities consist mainly of retroactive salary increases, which accumulated following Hurricanes Hugo, Marilyn and Bertha in the years of 1990 through 1998. At September 30, 2010 and 2009, unpaid retroactive salary liabilities amounted to $231.8 million, which is reported as a liability of the Government within other noncurrent liabilities.

Increasing expenditures in fiscal year 2010 included estimated landfill closure and post-closure costs amounting to $2.4 million and other postemployment benefits amounting to $51.3 million.

Other increasing general governmental expenditures include: health insurance premiums, pharmaceutical premiums, and salary expense.

Expenditures are closely monitored and controlled through the budgetary process.

Deficit Reduction Measures

In fiscal year 2010, the PG reported an unrestricted net deficit of $1.9 billion. In fiscal year 2009, the PG reported an unrestricted net deficit of $1.1 billion.

The PG has implemented a number of deficit reducing measures including: (i) withholding of local gross receipts taxes on Government invoice payments, (ii) increasing local taxes such as property tax assessments on time-shares and gross receipts taxes; (iii) exerting greater control of expenditures through the budgetary process, and (iv) increase of the gross receipts tax rate for corporations.

Contacting the Government's Financial Management

This financial report is designed to provide the Government's citizens, taxpayers, customers, 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, 2010
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 228,827	$ 6,655	$ 235,482	$ 71,808
Investments	502,088	3,235	505,323	4,673
Receivables, net	326,465	2,684	329,149	65,083
Internal balances	9,130	(9,130)	–	–
Due from component units, net	2,568	–	2,568	186
Other receivable	–	–	–	18,398
Due from primary government	–	–	–	36,588
Due from federal government	–	–	–	5,846
Inventories	–	–	–	28,349
Other assets	5,083	826	5,909	12,833
Restricted:				
Cash and cash equivalents	909	2,402	3,311	69,995
Investments	–	–	–	109,731
Other	–	–	–	4,108
Capital assets, net	828,632	51,294	879,926	909,567
Deferred charges	42,262	93	42,355	72,200
Total assets	1,945,964	58,059	2,004,023	1,409,365
Liabilities				
Accounts payable and accrued liabilities	184,086	6,861	190,947	144,067
Tax refunds payable	68,716	–	68,716	–
Unemployment insurance benefits	–	2,970	2,970	–
Customer deposits	–	–	–	22,423
Due to primary government	–	–	–	79,144
Due to component units	12,501	–	12,501	434
Due to federal government	–	–	–	5,047
Interest payable	41,747	–	41,747	5,552
Unearned revenue	99,490	582	100,072	9,582
Other current liabilities	6,590	–	6,590	16,450
Noncurrent liabilities:				
Due within one year:				
Loans payable	3,921	659	4,580	9,576
Bonds payable	27,749	–	27,749	13,599
Other liabilities	49,263	8,651	57,914	727
Due in more than one year:				
Loans payable	22,251	38,375	60,626	50,279
Bonds payable	1,791,631	–	1,791,631	322,468
Other liabilities	581,977	9,248	591,225	50,305
Total liabilities	2,889,922	67,346	2,957,268	729,653

(Continued)

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) (continued)

September 30, 2010
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Net assets (deficit)				
Invested in capital assets, net of related debt	$ 234,576	$ 30,394	$ 264,970	$ 618,143
Restricted for:				
Unemployment insurance	–	487	487	–
Debt service	229,158	1,915	231,073	–
Capital projects	909	–	909	–
Other purposes	–	–	–	125,852
Unrestricted	(1,408,601)	(42,083)	(1,450,684)	(64,283)
Total net assets (deficit)	$ (943,958)	$ (9,287)	$ (953,245)	$ 679,712

See accompanying notes.

Government of the United States Virgin Islands

Statement of Activities

Year Ended September 30, 2010

(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	$ 661,014	$ 28,144	$ 146,716	$ 5,413	$ (480,741)	$ –	$ (480,741)	$ –
Public safety	71,526	320	80	–	(71,126)	–	(71,126)	–
Health	160,679	193	30,766	–	(129,720)	–	(129,720)	–
Public housing and welfare	139,689	9,234	60,328	–	(70,127)	–	(70,127)	–
Education	277,003	5,312	28,071	–	(243,620)	–	(243,620)	–
Transportation and communication	70,637	97	24,969	24,128	(21,443)	–	(21,443)	–
Culture and recreation	9,470	2,211	–	–	(7,259)	–	(7,259)	–
Interest on long-term debt	87,208	–	4,647	–	(82,561)	–	(82,561)	–
Total governmental activities	1,477,226	45,511	295,577	29,541	(1,106,597)	–	(1,106,597)	–
Business-type activities:								
Unemployment insurance	26,005	2,092	25,257	–	–	1,344	1,344	–
West Indian Company	11,476	8,826	–	–	–	(2,650)	(2,650)	–
Workmen's compensation	13,835	7,844	–	–	–	(5,991)	(5,991)	–
V.I. Lottery	20,495	19,375	–	–	–	(1,120)	(1,120)	–
Other	16,733	13,380	–	–	–	(3,353)	(3,353)	–
Total business-type activities	88,544	51,517	25,257	–	–	(11,770)	(11,770)	–
Total primary government	$ 1,565,770	$ 97,028	$ 320,834	$ 29,541	(1,106,597)	(11,770)	(1,118,367)	–
Component units:								
Virgin Islands Housing Authority	$ 41,208	$ 6,165	$ 37,771	$ 9,408	–	–	–	12,136
Virgin Islands Port Authority	61,750	44,845	–	9,189	–	–	–	(7,716)
Virgin Islands Water and Power Authority:								
Electric system	282,665	253,796	–	3,214	–	–	–	(25,655)
Water system	22,126	34,660	–	5,955	–	–	–	18,489
V.I. Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	94,402	54,504	30,948	1,728	–	–	–	(7,222)
Juan F. Luis Hospital	77,938	38,216	–	2,235	–	–	–	(37,487)
University of the Virgin Islands	85,773	17,521	65,806	3,192	–	–	–	746
Other component units	75,608	8,676	58,957	12,679	–	–	–	4,704
Total component units	$ 741,470	$ 458,383	$ 193,482	$ 47,600	–	–	–	(42,005)
Total primary government and component units					(1,106,597)	(11,770)	(1,118,367)	(42,005)

(continued)

Government of the United States Virgin Islands

Statement of Activities (continued)

Year Ended September 30, 2010
(In thousands)

	Net Revenue (Expense) and Changes in Net Assets			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General revenues:				
Taxes	863,063	–	863,063	–
Interest and other	36,525	108	36,633	41,649
Tobacco settlement rights	2,136	–	2,136	–
Transfers – internal activities of primary government	700	(700)	–	–
Total general revenue and transfers	902,424	(592)	901,832	41,649
Changes in net assets (deficit)	(204,173)	(12,362)	(216,535)	(356)
Net assets (deficit), beginning of year, *as restated*	(739,785)	3,075	(736,710)	680,068
Net assets (deficit), end of year	$ (943,958)	$ (9,287)	$ (953,245)	$ 679,712

See accompanying notes.

Government of the United States Virgin Islands

Balance Sheet – Governmental Funds

September 30, 2010
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Assets					
Cash and cash equivalents	$ 119,356	$ 2,720	$ 19,825	$ 87,835	$ 229,736
Investments	46,423	275,113	168,874	11,678	502,088
Receivables:					
Taxes, net	278,534	46,167	–	–	324,701
Accrued interest and other	35	–	–	161	196
Due from:					
Other funds	14,146	–	325	14,845	29,316
Component units, net	2,568	–	–	–	2,568
Other assets	–	–	–	34	34
Total assets	$ 461,062	$ 324,000	$ 189,024	$ 114,553	$ 1,088,639
Liabilities and Fund Balances (Deficit)					
Accounts payable and accrued liabilities	$ 155,012	$ 63	$ 725	$ 28,286	$ 184,086
Tax refunds payable	68,716	–	–	–	68,716
Due to:					
Other funds	13,308	–	–	6,878	20,186
Component units	12,501	–	–	–	12,501
Deferred revenue	296,531	94,779	–	3,500	394,810
Other current liabilities	5,500	–	135	955	6,590
Total liabilities	551,568	94,842	860	39,619	686,889
Fund balances (deficit) reserved for:					
Encumbrances	65,359	–	–	–	65,359
Debt service	–	229,158	–	74,934	304,092
Unreserved fund balance (deficit), reported in:					
General fund	(155,865)	–	–	–	(155,865)
Capital projects funds	–	–	188,164	–	188,164
Total fund balances (deficit)	(90,506)	229,158	188,164	74,934	401,750
Total liabilities and fund balances (deficit)	$ 461,062	$ 324,000	$ 189,024	$ 114,553	

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.	828,632
Expenditures identified as related to a future period, recognized as a prepaid asset in the statement of net assets.	5,083
Deferred bond issue costs are not financial resources and, therefore, are not reported in the funds.	42,262
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and, therefore, are deferred in the funds	296,854
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(41,747)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,476,792)
Net deficit of governmental activities at September 30, 2010	$ (943,958)

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, 2010
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Revenues:					
Taxes	$ 492,439	$ 172,153	$ 4,341	$ 22,262	$ 691,195
Federal grants and contributions	72,770	–	1,896	250,453	325,119
Charges for services	24,287	–	–	21,224	45,511
Tobacco settlement rights	–	–	–	2,258	2,258
Interest and other	1,483	6,980	916	27,146	36,525
Total revenues	590,979	179,133	7,153	323,343	1,100,608
Expenditures:					
Current:					
General government	434,464	–	107,686	71,402	613,552
Public safety	64,159	–	–	5,689	69,848
Health	122,841	–	–	36,590	159,431
Public housing and welfare	59,655	–	–	79,778	139,433
Education	222,395	–	–	49,205	271,600
Transportation and communication	27,031	–	–	27,717	54,748
Culture and recreation	8,995	–	–	121	9,116
Capital outlays	22,114	–	39,009	49,930	111,053
Debt service:					
Principal	200,000	410,075	3,264	2,015	615,354
Interest	6,958	69,145	769	917	77,789
Cost of issuance of bonds and loans	–	15,980	–	–	15,980
Total expenditures	1,168,612	495,200	150,728	323,364	2,137,904
Deficiency of revenues under expenditures	(577,633)	(316,067)	(143,575)	(21)	(1,037,296)
Other financing sources (uses):					
Bonds issued	350,000	426,069	121,011	–	897,080
Loans issued	106,400	675	3,325	–	110,400
Bond premiums	–	18,333	–	–	18,333
Bond discounts and issuance costs	–	(2,734)	–	–	(2,734)
Transfers from other funds	92,848	–	61	8,488	101,397
Transfers to other funds	(6,763)	(81,381)	(54)	(12,500)	(100,698)
Total other financing sources (uses), net	542,485	360,962	124,343	(4,012)	1,023,778
Net change in fund balances	(35,148)	44,895	(19,232)	(4,033)	(13,518)
Fund balance at beginning of year	(55,358)	184,263	207,396	78,967	415,268
Fund balance at end of year	$ (90,506)	$ 229,158	$ 188,164	$ 74,934	$ 401,750

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, 2010
(In thousands)

Net change in fund balances – total governmental funds	$	(13,518)
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 year.		83,156
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.		188,086
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. This is the amount by which loan and bond proceeds of $1.007 billion exceeded debt repayments of $615.4 million.		(392,125)
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.		(61,849)
Some expenses reported in the statement of revenues and expenditures related to a future period and are reported as prepaid assets in the statement of net assets.		5,083
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 year.		14,087
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 additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts, and accreted interest on capital bonds during the current year.		(17,671)
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 the portion of accrued interest.		(9,422)
Change in net assets of governmental activities	$	(204,173)

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, 2010
(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Taxes	$ 540,145	$ 540,145	$ 492,439	$ (47,706)
Federal grants and contributions	102,200	102,200	72,770	(29,430)
Charges for services	9,632	9,632	24,287	14,655
Interest and other	17,910	17,910	1,483	(16,427)
Total revenues	669,887	669,887	590,979	(78,908)
Expenditures:				
Current:				
General government	209,683	213,723	434,464	220,741
Public safety	151,063	151,201	64,159	(87,042)
Health	90,072	93,636	122,841	29,205
Public housing and welfare	69,280	70,780	59,655	(11,125)
Education	229,464	244,428	222,395	(22,033)
Transportation and communication	40,996	40,996	27,031	(13,965)
Culture and recreation	21,245	23,516	8,995	(14,521)
Total expenditures	811,803	838,280	939,540	101,260
Deficiency of revenues over expenditures	(141,916)	(168,393)	(348,561)	(180,168)
Other financing sources (uses):				
Loans issued	100,180	100,180	106,400	6,220
Intergovernmental	6,600	6,600	–	(6,600)
Transfers from other funds	83,995	83,995	92,848	8,853
Transfer to other funds	(16,162)	(22,382)	(6,763)	15,619
Total other financing sources, net	174,613	168,393	192,485	24,092
Excess (deficiency) of revenues and net other financing sources over expenditures	$ 32,697	$ –	$ (156,076)	$ (156,076)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) – Proprietary Funds

September 30, 2010
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	**Unemployment Insurance**	**Other Enterprise**	**Totals**
Assets				
Current assets:				
Cash and cash equivalents	$ 2,682	$ 743	$ 3,230	$ 6,655
Investments at fair value	–	–	3,235	3,235
Receivables, net:				
Premiums receivable	–	995	–	995
Other receivables	566	–	1,123	1,689
Due from other funds	–	–	739	739
Other assets	752	–	74	826
Total current assets	4,000	1,738	8,401	14,139
Noncurrent assets:				
Restricted cash and cash equivalents	1,915	487	–	2,402
Capital assets	39,994	–	11,300	51,294
Deferred expenses	93	–	–	93
Total noncurrent assets	42,002	487	11,300	53,789
Total assets	46,002	2,225	19,701	67,928
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	2,174	–	4,687	6,861
Due to other funds	2,600	–	7,269	9,869
Unemployment insurance benefits	–	2,970	–	2,970
Unearned revenue	–	–	582	582
Workers compensation	–	–	8,651	8,651
Loan payable to U.S. Treasury	–	16,125	–	16,125
Loans payable related to capital assets	659	–	–	659
Total current liabilities	5,433	19,095	21,189	45,717
Noncurrent liabilities:				
Workers compensation	–	–	9,248	9,248
Loans payable related to capital assets	22,250	–	–	22,250
Total noncurrent liabilities	22,250	–	9,248	31,498
Total liabilities	27,683	19,095	30,437	77,215
Net assets (deficit)				
Invested in capital assets, net of related debt	19,093	–	11,301	30,394
Restricted	1,915	487	–	2,402
Unrestricted	(2,689)	(17,357)	(22,037)	(42,083)
Total net assets (deficit)	$ 18,319	$ (16,870)	$ (10,736)	$ (9,287)

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2010
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	**Unemployment Insurance**	**Other Enterprise**	**Total**
Operating revenues:				
Charges for services	$ 8,826	$ 2,093	$ 40,598	$ 51,517
Total operating revenues	8,826	2,093	40,598	51,517
Operating expenses:				
Cost of services	7,995	25,969	49,424	83,388
Depreciation and amortization	1,906	–	1,639	3,545
Total operating expenses	9,901	25,969	51,063	86,933
Operating loss	(1,075)	(23,876)	(10,465)	(35,416)
Non-operating revenues (expenses):				
Federal unemployment assistance	–	25,257	–	25,257
Interest income	55	32	21	108
Interest expense	(1,575)	(36)	–	(1,611)
Total non-operating revenues (expenses), net	(1,520)	25,253	21	23,754
Income (loss) before operating transfers	(2,595)	1,377	(10,444)	(11,662)
Transfers to other funds	(700)	–	–	(700)
Change in net assets	(3,295)	1,377	(10,444)	(12,362)
Net assets at beginning of year	21,614	(18,247)	(292)	3,075
Net assets (deficit) at end of year	$ 18,319	$ (16,870)	$ (10,736)	$ (9,287)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Cash Flows − Proprietary Funds

Year Ended September 30, 2010
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	Unemployment Insurance	Other Enterprise	Total
Cash flows from operating activities				
Receipts from customers and users	$ 8,990	$ 1,638	$ 40,037	$ 50,665
Payments to beneficiaries, suppliers and employees	(7,115)	(39,818)	(47,560)	(94,493)
Net cash provided by (used in) operating activities	1,875	(38,180)	(7,523)	(43,828)
Cash flows from noncapital financing activities				
Federal grants	–	25,257	–	25,257
Transfer to other funds	(700)	–	–	(700)
Net cash provided by (used in) noncapital financing activities	(700)	25,257	–	24,557
Cash flows from capital and related financing activities				
Proceeds from the sale of property and equipment	456	–	–	456
Acquisition and construction of capital assets	–	–	(951)	(951)
Issuance of long-term debt	–	13,114	–	13,114
Principal paid on long-term debt	(606)	–	–	(606)
Interest paid on long-term debt	(1,575)	(26)	–	(1,601)
Net cash provided by (used in) capital and related financing activities	(1,725)	13,088	(951)	10,412
Cash flows from investing activities				
Interest on investments	55	32	21	108
Sale of investments	–	–	1,981	1,981
Net cash provided by investing activities	55	32	2,002	2,089
Net decrease in cash and cash equivalents	(495)	197	(6,472)	(6,770)
Cash and cash equivalents at beginning of year	5,092	1,033	9,702	15,827
Cash and cash equivalents at end of year	$ 4,597	$ 1,230	$ 3,230	$ 9,057
Reconciliation of operating loss to net cash provided by (used in) operating activities				
Operating loss	$ (1,075)	$ (23,877)	$ (10,465)	$ (35,417)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,906	–	1,639	3,545
Change in assets and liabilities:				
Receivables, net	163	(455)	71	(221)
Due from other funds	–	–	(441)	(441)
Inventories	–	–	22	22
Unearned revenue	115	–	(192)	(77)
Other assets	60	–	(29)	31
Accounts payable and accrued liabilities	706	(13,848)	(591)	(13,733)
Unemployment insurance benefits	–	–	–	–
Workers compensation	–	–	2,404	2,404
Due to other funds	–	–	59	59
Other liabilities payable	–	–	–	–
Net cash provided by (used in) operating activities	$ 1,875	$ (38,180)	$ (7,523)	$ (43,828)
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents – current	$ 2,682	$ 1,230	$ 3,230	$ 7,142
Cash and cash equivalents – restricted	1,915	–	–	1,915
Total cash and cash equivalents at end of year	$ 4,597	$ 1,230	$ 3,230	$ 9,057

See accompanying notes.

Government of the United States Virgin Islands

Statement of Fiduciary Net Assets – Fiduciary Funds

September 30, 2010
(In thousands)

	Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents:		
Unrestricted	$ 128,769	$ 19,069
Restricted	16	–
Investments	1,259,090	2,228
Receivables, net:		
Loans and advances	138,188	–
Accrued interest	4,259	–
Other	7,794	–
Other assets	10,763	–
Total assets	1,548,879	21,297
Liabilities		
Accounts payable and accrued liabilities	–	19,069
Cash overdraft with bank	4,063	–
Unsettled securities purchased	4,393	–
Securities lending collateral	170,919	–
Notes payable	9,963	–
Other liabilities	7,253	2,228
Total liabilities	196,591	21,297
Net assets held in trust for employees' pension benefits	$ 1,352,288	$ –

See accompanying notes.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

Year Ended September 30, 2010
(In thousands)

	Pension Trust Fund
Additions:	
Contributions:	
Employer	$ 77,004
Plan members	40,108
Total contributions	117,112
Investment income:	
Net appreciation of fair value of investments	68,699
Net depreciation of fair value of real estate	(3,492)
Interest, dividends, and other, net	38,722
Real estate – net rental income	3,057
	106,986
Less investment expense	5,480
Net investment income	101,506
Other income	2,653
Total additions	221,271
Deductions:	
Benefits paid	192,678
Refunds of contributions	2,007
Administrative and operational expenses	13,609
Total deductions	208,294
Change in net assets	12,977
Net assets, beginning of year	1,339,311
Net assets, end of year	$ 1,352,288

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.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

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:

(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 (PFA)

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 USVI Legislature (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 funds are reported as major funds, with the exception of PFA Special Revenue Fund, which is included in the other aggregate remaining fund information.

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(a) Blended Component Units (continued)

Tobacco Settlement Financing Corporation (TSFC)

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.

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 Nos. 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.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units

Virgin Islands Housing Authority (VIHA)

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. From June 1962 through August 2003, the powers of VIHA were exercised by a board of commissioners consisting of seven members. 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. VIHA was placed in receivership and HUD assumed possession of all assets, projects, and programs.

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 (VIPA)

VIPA was created as a body corporate and politic constituting a public corporation and autonomous government instrumentality by Act No. 2375 on 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.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

Virgin Islands Water and Power Authority (WAPA)

WAPA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 1248 on 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).

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

VIGHHFC was created by Act No. 6012 on August 23, 1994 and became active on May 1, 1999, with the purpose of providing 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 on St. Thomas and the Juan F. Luis Hospital and Medical Center located on 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 separated organizations for which the Roy L. Schneider Hospital is financially accountable.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

University of the Virgin Islands (the University)

The University was organized as an instrumentality of the Government under Act No. 852 on 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 representative of the teaching faculty. The University was not organized as a self-sustaining entity and therefore receives substantial financial and other support from the Government.

The University's financial statements include its component units: The Foundation for the University of the Virgin Islands and The Reichhold Foundation. 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.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units

Virgin Islands Economic Development Authority (EDA)

EDA was created by Act No. 6390 on 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 (MBA)

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)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Housing Finance Authority (VIHFA)

VIHFA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government by Act No. 4636 on 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 (VIPTS)

VIPTS 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 as well as to provide an effective supplement to the in-school education of children. The powers of VIPTS 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 VIPTS are ex-officio members of the board who are not entitled to vote.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Waste Management Authority (VIWMA)

VIWMA was established as a nonprofit, public, autonomous instrumentality of the Government by Act No. 6638 and 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 appointed by the Governor of the Virgin Islands. Four of the members are from the private sector and are appointed with the advice and consent of the Legislature of the U.S. Virgin Islands.

University of the Virgin Islands Research and Technology Park (RTPark)

RTPark was established as a public, autonomous instrumentality of the Government by Act 6502 on February 21, 2002, as amended, by Act 6725, the Protected Cell Amendments Act of 2005. RTPark was organized for internet commerce and technology, providing an enabling environment for research, development, business incubation and technology-driven businesses. RTPark is governed by a Board of Directors consisting of seven members, including the Chairman of the Board of Trustees of the University, the President of the University, two trustees selected from among the Board of Trustees of the University, and three members selected by the Governor.

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
PO Box 7668
St. Thomas, VI 00801

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

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

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

University of the Virgin Islands Research and Technology Park Corporation
RR1 Box 10000
Kingshill, St. Croix, VI 00850-9781

All financial statements of the discretely presented component units have a fiscal year-end of September 30, 2010, except for WAPA and VIHA that have a year-end of June 30, 2010 and December 31, 2009, respectively.

(c) Fiduciary Component Unit

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.

Employees' Retirement System of the Government of the Virgin Islands (GERS)

GERS was created as an independent and separate agency of the Government with the purpose of administering the Government's, and component units' cost-sharing, multiple-employer defined-benefit pension plan. GERS was established on October 1, 1959. 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.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(c) Fiduciary Component Unit (continued)

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, Virgin Islands 00802

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net assets (deficit) 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. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (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 revenues 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.

1. Summary of Significant Accounting Policies (continued)

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 when 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 fiscal year-end. Grant revenue is considered to be available if collected within the 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.

1. Summary of Significant Accounting Policies (continued)

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

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

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.

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:

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(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 Fund – The PFA debt service fund 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.

(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 fund:

- 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.
- Unemployment Insurance – 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 the eligible unemployed recipients.

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(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 GERS, 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 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. 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.

Investments

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

1. Summary of Significant Accounting Policies (continued)

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 its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. Investments are reported at fair value.

- ***PFA 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 PFA. The PFA handles investments for two major governmental funds of the Government: the PFA debt service fund and the PFA capital projects fund.

- ***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 PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. Investments are reported at fair value in the non-major governmental fund of the Government.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***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 GERS have enacted policies that limit investments in certain investment categories and provide requirements 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 stock may not exceed 60% of the total investments of GERS. Investment in foreign stock should be limited to 10% of the market value 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 GERS.

  GERS is authorized to invest in life settlement policy contract investments provided the investment is in a group of life insurance policies, with a minimum number of 100 measured lives; the face value of any single policy investment does not exceed $5.0 million or 2% of the aggregate face value of policy investments, and; the aggregate face value on any individual life does not exceed the greater of $10.0 million or 1% of the aggregate face value of policies purchased as investments by GERS.

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.

In December 4, 2009, GERS executed a loan agreement with Seaborne Virgin Islands, Inc., a seaplane service operating on the islands of St. Croix and St. Thomas. The agreement provided for a first lien term loan of $1.3 million at an initial interest rate of 8.25%, and a senior secured convertible loan of $2 million at an interest rate of 14.5%, secured by real and personal property of Seaborne Airlines, the unconditional guarantee of Coastal Airways, Inc., the parent company of Seaborne, and all of the issued and outstanding stock of Seaborne. As of September 30, 2010, the loan investment was $3.3 million.

On December 8, 2009, GERS executed a loan agreement with Carambola Northwest, LLC, a condominium, hotel and golf resort on the island of St. Croix. The five year term loan was in the amount of $15 million at an interest rate of 10.5 percent, collateralized with all real property holdings of Carambola Northwest, LLC. As of September 30, 2010, the loan investment amounted to $10.9 million. In May 2011, Carambola went into default on principal payments on the loan and requested a restructuring of the terms of the loan. In October 2011, GERS modified the loan agreement to reduce the interest rate to 6.3 percent.

GERS has invested in a shopping and pier complex on the island of St. Thomas. The property is reported at fair market value. GERS owns administrative facilities on the islands of St. Thomas and St. Croix, that are reported at historical cost, net of accumulated depreciation.

- ***WAPA and VIPA Investment Policies*** – These major component units are 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 States government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***The University 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. As of September 30, 2010, the University's policies do not address risks associated with investments.

- ***VIGHHFC Investment Policies*** – The board of trustees of this major component unit have not developed a formal investment policy. At September 30, 2010, investments were comprised of certificates of deposit which were reported at fair value, and a 40% interest in a U.S. Virgin Islands corporation that provides radiology services. The investment in the U.S. Virgin Islands corporation is accounted for under the equity method.

- ***VIHA 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.

1. Summary of Significant Accounting Policies (continued)

Receivables (continued)

Subject to the provisions of the V.I. Code, and subject to rules and regulations prescribed by the board of trustees of GERS, members of GERS have the right to obtain loans from GERS to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to GERS for at least five years is $350,000. 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 GERS for at least five years can borrow up to $18,000 for the purchase of an automobile. Auto loans bear interest at rates that range between 8.75% and 9.50% with a maximum term of five years. Active members may also borrow up to 75% of their contributions paid into GERS to a maximum borrowing of $50,000 as a personal loan. The interest rate offered on personal loans was 8.00% to 8.50% for the year. Retired members may qualify for personal loans up to $10,000 at the same interest rates as active members; however, effective fiscal year 2009, retirees have the option of refinancing their personal loan provided the original amount is paid down by at least 50%.

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

The accounts receivable from non-governmental 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.

Restricted Assets

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

1. Summary of Significant Accounting Policies (continued)

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 with an estimated useful life of 20 years; and (iv) $200,000 for infrastructure with an estimated useful life of 30 years. The value of all land acquired is capitalized.

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 proprietary 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 asset's estimated useful lives.

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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.

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. In subsequent periods, when the revenue recognition criteria are met, or when the Government has a legal claim to the resources, deferred revenue is reduced 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 or revenue recognition criteria have not been met.

Long-Term Liabilities

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, and other long-term liabilities including: compensated absences, retroactive union arbitration salaries, landfill closure and post closure, arbitrage liabilities, workers compensation loss claims, postemployment benefit costs 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.

1. Summary of Significant Accounting Policies (continued)

Long-Term Liabilities (continued)

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.

Fund Balance

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.

1. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

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 needed.

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.

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 its employees.

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.

1. Summary of Significant Accounting Policies (continued)

Interfund and Intra-entity Transactions (continued)

Similarly, receivables and payables between the PG and its blended component units are reported as amounts due from (to) 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 as due from (to) component units, net of allowance for estimated uncollectible amounts.

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.

The Government does not maintain accounting records in support of individual claim liabilities or for claims incurred but not reported (IBNR). Accordingly, medical malpractice claims are accounted for on a cash basis. Therefore, the basic financial statements do not include a liability for medical malpractice claims outstanding, including related IBNR, as of September 30, 2010, as required by GAAP.

1. Summary of Significant Accounting Policies (continued)

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
54	Fund Balance Reporting and Governmental Fund Type Definitions	2011
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2012
59	Financial Instruments Omnibus	2011
60	Accounting and Financial Reporting For Service Concession Arrangements	2013
61	The Financial Reporting Entity; Omnibus- An Amendment of GASB Statements No. 14 and 34	2013
62	Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA Pronouncements	2013
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position	2013
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions-an Amendment of GASB Statement No. 53	2012
65	Items Previously Reported as Assets and Liabilities	2013
66	Technical Corrections─2012 an amendment of GASB Statement No. 25	2013
67	Financial Reporting of Pension Plans–an amendment of GASB Statement No. 27	2014

The impact of these statements has not yet been determined by the Government.

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
- Virgin Islands Economic Development Authority
- Magens Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Television System
- Virgin Islands Waste Management Authority
- University of the Virgin Islands Research and Technology Park Corporation

2. Component Units (continued)

Condensed financial information as of September 30, 2010 of all discretely presented component units follows (expressed in thousands):

Information on net assets (deficit)	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	Other Entities	Total Component Units
			Electric System	Water System	Roy L. Schneider Hospital	Juan F. Luis Hospital			
Assets:									
Current assets	$ 16,458	$ 27,228	$ 49,187	$ 9,163	$ 24,622	$ 13,687	$ 20,689	$ 40,296	$ 201,330
Due from primary government	–	1,607	18,820	2,778	–	–	1,276	12,107	36,588
Due from federal government	–	276	–	–	–	1,112	2,843	1,615	5,846
Restricted assets	1,268	11,325	68,066	12,019	182	2,210	54,493	34,271	183,834
Capital assets, net	66,240	245,517	280,519	63,692	63,306	45,839	54,352	90,102	909,567
Deferred expenses and									–
other noncurrent assets	12	1,165	58,927	8,060	–	–	4,036	–	72,200
Total assets	83,978	287,118	475,519	95,712	88,110	62,848	137,689	178,391	1,409,365
Liabilities:									
Current liabilities	6,910	14,832	87,639	8,455	20,471	29,245	8,634	12,740	188,926
Due to primary government	–	–	–	–	27,865	46,280	–	4,999	79,144
Due to federal government	–	–	5,047	–	–	–	–	–	5,047
Bonds payable	–	34,782	233,901	23,828	–	–	40,746	2,810	336,067
Loans payable	–	1,301	54,461	–	–	–	1,734	2,359	59,855
Deferred revenue	2,853	–	–	–	–	15	5,442	1,272	9,582
Other noncurrent liabilities	6,514	–	16,809	3,943	–	477	115	23,174	51,032
Total liabilities	16,277	50,915	397,857	36,226	48,336	76,017	56,671	47,354	729,653
Net assets (deficit):									
Invested in capital assets, net of related debt	59,822	210,735	131,945	43,172	63,306	45,361	23,467	40,335	618,143
Restricted	655	11,325	15,731	10,933	1,930	2,210	37,854	45,214	125,852
Unrestricted (deficit)	7,224	14,143	(70,012)	5,380	(25,462)	(60,741)	19,696	45,489	(64,283)
Total net assets	$ 67,701	$ 236,203	$ 77,664	$ 59,485	$ 39,774	$ (13,170)	$ 81,017	$ 131,038	$ 679,712

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	$ 41,208	$ 6,165	$ 37,771	$ 9,408	$ 12,136
Virgin Islands Port Authority	61,750	44,845	–	9,189	(7,716)
Virgin Islands Water and Power Authority:					
Electric System	282,665	253,796	–	3,214	(25,655)
Water System	22,126	34,660	–	5,955	18,489
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	94,402	54,504	30,948	1,728	(7,222)
Juan F. Luis Hospital	77,938	38,216	–	2,235	(37,487)
University of the Virgin Islands	85,773	17,521	65,806	3,192	746
Other component units	75,608	8,676	58,957	12,679	4,704
Total activities	$ 741,470	$ 458,383	$ 193,482	$ 47,600	(42,005)
General revenue:					
Interest and other					41,649
Changes in net assets					(356)
Net assets at beginning of year *(as restated)*					680,068
Net assets at end of year					$ 679,712

The amount due from the PG at September 30, 2010, amounted to approximately $36.6 million. The amount due to the PG amounted to $79.1 million, consisting primarily of hospital liabilities of $74.1 million. The amount due from hospitals was subsequently forgiven by the Legislature on December 16, 2011, with the passage of Act 7327. Note 18 provides additional information on the subsequent forgiveness of amounts due to the PG.

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 balanced executive budget no later than May 30. The annual balanced executive budget is prepared 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 re-appropriated item by item. The annual balanced executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all proposed expenditures and estimated revenue for the Government. The Legislature enacts the annual executive budget through passage of 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-thirds 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.

3. Stewardship, Compliance, and Accountability (continued)

Budgetary Process and Control (continued)

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.

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 (deficiency) of revenue and net other financing sources over expenditures for the year ended September 30, 2010 is presented below (expressed in thousands):

Deficiency of revenues and net other financing sources over expenditures	$	(156,076)
Entity difference – excess of revenues and net other financing sources expenditures – activities with budgets not legally adopted		120,928
Deficiency of revenues and net other financing sources over expenditures – GAAP basis (net change in fund balance)	$	(35,148)

Controls over spending in special revenue funds and non-appropriated funds are maintained at the Department of Finance by use of budgets and available resources (revenues). 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

At September 30, 2010, the PG reported $236.4 million in unrestricted cash and cash equivalents, and $2.4 million in restricted cash and cash equivalents.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2010, GERS held $62.9 million in money market accounts, $27.6 million in interest-bearing bank accounts, and $38.3 million in operational accounts.

Component Units

At September 30, 2010, component units held $71.8 million in unrestricted cash and cash equivalents and $70.0 million in restricted cash and cash equivalents, of which $4.3 million was not insured, bonded or collateralized as required for public funds of the Government.

5. Investments

Primary Government Investments

Following is a summary of the investments of the PG, categorized by investment type and maturity as of September 30, 2010:

Primary Government Investments
(in thousands)

		Maturity (in years)		
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**Over 5 Years**
Investments with contractual maturities				
Certificates of deposit	$ 11,721	$ 11,721	$ –	$ –
Portfolio investments				
Commercial paper	63,487	63,487	–	–
U.S. Government agencies and notes	79,004	42,457	36,547	–
Repurchase agreement	431	431	–	–
Total investments with contractual maturities	154,643	$ 118,096	$ 36,547	$ –
Investments without contractual maturities				
Money Market and Mutual Funds	350,680			
Total Primary Government Investments	$ 505,323			

5. Investments (continued)

Primary Government Investments (continued)

Interest-Rate Risk – Interest-rate risk represents the exposure to fair 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, a substantial portion of 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.

At September 30, 2010, the PG's investments in money market funds were rated AAAm by Standard & Poor's, and Aaa/AAA by Moody's Investor Service; PG's investment in commercial securities were rated A-1+, AA+ or higher by Standard & Poor's, and Aa2 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, 2010, more than 5% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (52.3%), Goldman Financial Securities Money Market #474 (11.9%), Ebbetts PLC & Ebbetts LLC, C.P. (7.9%), Federal National Mortgage Association (7.2%), and Federal Home Loan Mortgage Corporation (6.4%).

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, 2010, $505.3 million of investments were held in the name of The Bank of New York Trust Company, N.A, as trustee for PFA.

5. Investments (continued)

Pension Trust Fund Investments

Following is a summary of pension trust fund investments as of September 30, 2010:

Pension Trust Fund Investments
(In thousands)

		Maturity (in years)			
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**More Than 10 Years**
Investments with contractual maturities					
U.S. Government and agency obligations	$ 14,563	$ –	$ 11,172	$ 59	$ 3,332
U.S. Treasury notes	70,231	–	45,916	24,315	–
U.S. Treasury bonds	26,297	–	4,004	–	22,293
Municipals	8,406	–	2,755	1,096	4,555
Corporate obligations	84,872	3,797	33,981	23,978	23,116
Foreign bonds	9,374	819	2,433	3,658	2,464
Government obligations - foreign	56,044	15,848	16,861	12,121	11,214
Mortgage and asset backed securities	59,736	–	628	1,190	57,918
Total investments with contractual maturities	329,523	$ 20,464	$ 117,750	$ 66,417	$ 124,892
Investments without contractual maturities					
Equity Securities:					
Common stocks - U.S.	487,602				
Common stocks - foreign	80,139				
Real Estate Investments:					
Real estate investment trusts	4,588				
Havensight Mall - U.S. Virgin Islands	66,600				
GERS Complex - U.S. Virgin Islands	25,637				
Investment loan	14,186				
Limited partnership	48,710				
Securities lending short-term collateral investment pool	170,919				
Mutual funds	31,186				
Total pension fund investments	$ 1,259,090				

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 market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from GERS' 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.

5. Investments (continued)

Pension Trust Fund Investments (continued)

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
U.S. Government and agency obligations	$ 349	A-	A2
U.S. Government and agency obligations	8,794	AAA	AAA
U.S. Government and agency obligations	920	BBB-	BAA3
U.S. Government and agency obligations	3,497	A-	AA1 to AA2
U.S. Government and agency obligations	1,003	Not Rated	Not Rated
U.S. Treasury notes	70,231	AAA	AAA
U.S. Treasury bonds	26,297	AAA	AAA
Corporate obligations	84,872	BBB- to AAA	BAA3 to AAA
Foreign bonds	5,155	BBB- to AAA	BA1 to AAA
Foreign bonds	4,219	Not Rated	Not Rated
Government obligations - foreign	6,379	A+	AA2
Government obligations - foreign	46,432	AAA	AAA
Government obligations - foreign	3,233	Not Rated	Not Rated
Municipals	2,755	A1	A+
Municipals	585	AA1	AAA
Municipals	510	AA3	AA-
Municipals	1,317	BBB	BAA3
Municipals	3,239	A1	A-
Mortgage and asset backed securities	12,608	CCC to AA+	CAA3 to AA1
Mortgage and asset backed securities	38,822	AAA	AAA
Mortgage and asset backed securities	8,306	Not Rated	Not Rated
Common stocks- U.S.	487,602	Not Rated	Not Rated
Common stocks - foreign	80,139	Not Rated	Not Rated
Real estate investment trust	442	B-	Not Rated
Real estate investment trust	4,146	Not Rated	Not Rated
Real estate holdings - U.S. Virgin Islands	92,237	Not Rated	Not Rated
Investment loans	14,186	Not Rated	Not Rated
Limited partnership	48,710	Not Rated	Not Rated
Securities lending short-term collateral investment pool	170,919	Not Rated	Not Rated
Mutual funds	31,186	Not Rated	Not Rated
Total investments	$ 1,259,090		

5. Investments (continued)

Pension Trust Fund Investments (continued)

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, 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 amounting to $3.4 million, 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, 2010. Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

Foreign Currency Risk – Foreign currency risk is the risk of holding investments in foreign currencies and the risk that those foreign currencies may devalue. GERS has no general investment policy with respect to foreign currency risk.

As of September 30, 2010, $146.0 million of GERS' portfolio was held in foreign currencies, with $42.2 million held in Euro, $26.4 million held in pound sterling, $20.3 million held in Australian dollars, $13.7 million held in Japanese yen, $8.1 million held in Swiss francs, $6.0 million held in Swedish krona, $10.8 million held in Canadian dollars, $5.8 million held in Norwegian krone, $3.3 million held in Hong Kong dollars, and $9.4 million in other currencies. 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 recorded with interest, dividends, and other income or losses reported at fair value. During the fiscal year ended September 30, 2010, GERS reported $46.1 million in forward currency purchases, $47.1 million in forward currency sales, and a foreign exchange gain of $208.0 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 2010 as to the amount of loans the Custodian can make on behalf of 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 fiscal years 2009 or 2008, 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, 2010, approximately $183.8 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, 2010, such investment pool had a weighted average maturity of 39 days and an average expected maturity of 149 days. Because the loans were terminable on demand, 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, 2010:

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	$ 36,569	$ 28,855	$ 7,714	$ –	$ –
Mortgage backed securites	3,549	–	–	–	3,549
Corporate bonds	1,460	–	55	102	1,303
Guaranteed investment contracts	142	–	–	–	142
U.S. Government agencies and notes	39,669	21,986	16,786	–	897
Total investments with contractual maturities	81,389	$ 50,841	$ 24,555	$ 102	$ 5,891
Investments without contractual maturities					
Common stock	2,003				
Mutual funds	30,142				
Other investments	870				
Total component unit investments	$ 114,404				

5. Investments (continued)

Component Unit 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. 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. The University of the Virgin Islands' investments include corporate bonds amounting to $1.4 million with a rating of A-AAA by Standard & Poor's.

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, 2010, $1.2 million of investments held by VIPA were held in the name of HSBC Bank USA as a trustee on behalf of VIPA.

6. Receivables

Primary Government Receivables

Receivables for governmental funds at September 30, 2010 consist of the following (expressed in thousands):

	General	PFA Debt Service	Total
Income taxes	$ 176,861	$ –	$ 176,861
Real property taxes	244,228	–	244,228
Gross receipts taxes	–	129,573	129,573
Excise taxes	1,366	–	1,366
Tax receivables	422,455	129,573	552,028
Less allowance for doubtful accounts	(143,921)	(83,406)	(227,327)
Net tax receivables	$ 278,534	$ 46,167	324,701
Other receivables – tobacco settlement rights and other			1,764
Total receivables reported in the statement of net assets (deficit)			$ 326,465

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 assessed each calendar year on all taxable real property located in the U.S. Virgin Islands. The receivable is recognized, net of estimated uncollectable amounts, in the general fund in the fiscal period for which the tax was assessed. The revenue is recognized in the general fund in the fiscal period for which the property tax is levied, provided the tax is collected within 60 days subsequent to fiscal year-end, unless the facts justify a period greater than 60 days. Receivables recognized before that period are recorded as deferred revenues.

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 Office of the Tax Collector, as the basis for issuing tax bills to all taxpayers in the U.S. Virgin Islands.

Property taxes are to be levied by May 15 of each year in the name of the record owner on January 15 of the same year. The taxes are due on June 30 and become delinquent if not paid by August 31.

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 4.0% of gross receipts in excess of $9,000 per month. Businesses with annual gross receipts greater than $120,000, but less than $225,000, are levied on a monthly basis, based on 4% of gross receipts in excess of $9,000 per month. Businesses with annual gross receipts of more than $225,000 are levied on a monthly basis, based on 4.0% of all gross receipts with no $9,000 per month exemption.

Monthly gross receipts tax filings are due within 30 calendar days following the last day of the calendar month collected. Annual gross receipts tax filings are due within 30 calendar days following the last day of the calendar year. Effective May 2011, the gross receipts tax rate increased to 4.5%.

Component Unit and Pension Trust Fund Receivables

Component unit receivables at September 30, 2010, consist of the following (expressed in thousands):

Utility service charges	$	24,673
Port fees		4,504
Students		2,235
Patients		25,143
Other		8,528
Total	$	65,083

Loans and advances receivable, net at September 30, 2010, consist of the following (expressed in thousands):

	Fiduciary Funds Pension Trust	Component Units
Mortgage loans	$ 9,946	$ –
Personal loans	128,360	–
Other loans and advances	173	49
Subtotal	138,479	49
Less allowance for uncollectible accounts	(291)	(49)
Loans and advances receivable, net	$ 138,188	$ –

7. Deferred Revenue

The components of deferred revenue for the general fund as of September 30, 2010 consist of the following (expressed in thousands):

Property tax	$ 160,256
Matching excise tax	40,560
Income tax	94,808
Excise tax	907
	$ 296,531

8. 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 $79.6 million transfer from the PFA debt service fund (a major governmental fund) representing gross receipt tax revenue in excess of bond service requirements, and a $12.5 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 $2.6 million to the emergency molasses fund (a non-major governmental fund) and a transfer of $2.0 million to the St. Croix capital improvement fund (a non-major governmental fund).

Significant transfers from the PFA debt service fund include a transfer of $1.7 million to the PFA special revenue fund (a non-major governmental fund), representing interest earned from unexpended bond proceeds and a transfer of $79.6 million from the PFA debt service fund to the general fund related to transfer of gross receipts taxes.

8. Interfund Transactions (continued)

Interfund Transfers (continued)

Interfund transfers for the year ended September 30, 2010 consisted of the following (expressed in thousands):

Transfer to	General	PFA Debt Service	PFA Capital Projects	Nonmajor Governmental	West Indian Company	Total
General	$ –	$ 79,594	$ 54	$ 12,500	$ 700	$ 92,848
PFA capital projects	–	61	–	–	–	61
Nonmajor governmental	6,763	1,726	–	–	–	8,489
Total	$ 6,763	$ 81,381	$ 54	$ 12,500	$ 700	$ 101,398

Transfer from	General	PFA Debt Service	PFA Capital Projects	Nonmajor Governmental	West Indian Company	Total
General	$ –	$ –	$ –	$ 6,763	$ –	$ 6,763
PFA debt service	79,594	–	61	1,726	–	81,381
PFA capital projects	54	–	–	–	–	54
Nonmajor governmental	12,500	–	–	–	–	12,500
West Indian Company	700	–	–	–	–	700
Total	$ 92,848	$ –	$ 61	$ 8,489	$ –	$ 101,398

8. Interfund Transactions (continued)

Due From/To Other Funds

The following table summarizes interfund receivables and payables at September 30, 2010 (expressed in thousands):

Due from other funds	General	PFA Capital Projects	Nonmajor Governmental	West Indian Company	Nonmajor Enterprise	Total
General	$ –	$ –	$ 6,878	$ 2,600	$ 4,668	$ 14,146
PFA capital projects	–	–	–	–	325	325
Nonmajor governmental	12,569	–	–	–	2,276	14,845
Total Governmental Funds	12,569	–	6,878	2,600	7,269	29,316
Nonmajor enterprise	739	–	–	–	–	739
Total Enterprise Funds	739	–	–	–	–	739
Total	$ 13,308	$ –	$ 6,878	$ 2,600	$ 7,269	$ 30,055
Due to other funds						
General	$ –	$ –	$ 12,569	$ –	$ 739	$ 13,308
Nonmajor governmental	6,878	–	–	–	–	6,878
Total Governmental Funds	6,878	–	12,569	–	739	20,186
West Indian Company	2,600	–	–	–	–	2,600
Nonmajor enterprise	4,668	325	2,276	–	–	7,269
Total Enterprise Funds	7,268	325	2,276	–	–	9,869
Total	$ 14,146	$ 325	$ 14,845	$ –	$ 739	$ 30,055

The due from (to) other funds includes the following amounts due from the general fund: $4.9 million due to the emergency molasses fund (a non-major governmental fund) for unpaid appropriations, $1.4 million due to the elected governor retirement fund, and $3.5 million due to the PFA special revenue fund for unpaid matching funds.

8. 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 V.I. Lottery owes $4.5 million to the general fund since the Virgin Islands Code requires the V.I. Lottery to transfer a minimum of 20% of the V.I. Lottery's net income to the general funds annually.

The due to other governmental funds includes $832.9 thousand due from the Virgin Islands Lottery to the pharmaceutical assistance to the aged fund and $1.1 million due from the Virgin Islands Lottery to the V.I. educational initiative fund consisting primarily of 15.0% of revenue derived from lottery games under contract between the Virgin Islands Lottery and private contractors be transferred to these funds.

9. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2010 include cash and cash equivalents as follows (expressed in thousands):

87

Restricted Assets – Proprietary Funds and Business-type Activities

Unemployment insurance funds	$	487
WICO debt service funds		1,915
Total restricted assets of proprietary funds and business-type activities	$	2,402

9. 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	$ 22,486
Endowment funds	20,696
HUD project funds	1,268
Revolving loan funds	14,748
Construction funds	2,144
Renewal and replacement funds	1,098
Other	7,555
Total cash and cash equivalents	69,995
Investments:	
Debt service and sinking fund requirements	33,839
Construction funds	35,500
Endowment funds	16,418
Renewal and replacement funds	5,840
Revolving loan funds	7,935
Other	10,199
Total investments	109,731
Other:	
Pledged funds	4,108
Total restricted assets of component units	$ 183,834

10. Capital Assets

Primary Government

The capital assets activity for the governmental activities for the year ended September 30, 2010, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 187,406	$ 2,636	$ –	$ –	$ 190,042
Construction in progress	111,594	76,467	(19,731)	–	168,330
	299,000	79,103	(19,731)	–	358,372
Other capital assets:					
Land improvements	5,305	–	–	–	5,305
Infrastructure	222,353	11,156	19,731	–	253,240
Building and Improvements	396,392	943	–	–	397,335
Machinery and Equipment	124,882	10,342	–	–	135,224
	748,932	22,441	19,731	–	791,104
Less accumulated depreciation for:					
Land improvements	(3,014)	(204)	–	–	(3,218)
Infrastructure	(49,300)	(7,813)	–	–	(57,113)
Building and improvements	(152,007)	(10,811)	–	–	(162,818)
Machinery and equipment	(88,355)	(9,340)	–	–	(97,695)
	(292,676)	(28,168)	–	–	(320,844)
Other capital assets, net of accumulated depreciation	456,256	(5,727)	19,731	–	470,260
Capital assets, net	$ 755,256	$ 73,376	$ –	$ –	$ 828,632

10. Capital Assets (continued)

Primary Government (continued)

Capital assets activity for the business-type activities for the year ended September 30, 2010, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 5,147	$ –	$ –	$ –	$ 5,147
Construction in progress	1,640	714	(2,079)	–	275
	6,787	714	(2,079)	–	5,422
Other capital assets:					
Land improvements	348	–	–	–	348
Building and Improvements	65,028	452	2,079	(1,455)	66,104
Machinery and Equipment	8,417	827	–	(51)	9,193
	73,793	1,279	2,079	(1,506)	75,645
Less accumulated depreciation for:					
Land improvements	(339)	(1)	–	–	(340)
Building and improvements	(19,910)	(2,317)	–	–	(22,227)
Machinery and equipment	(5,979)	(1,273)	–	46	(7,206)
	(26,228)	(3,591)	–	46	(29,773)
Other capital assets, net of accumulated depreciation	47,565	(2,312)	2,079	(1,460)	45,872
Capital assets, net	$ 54,352	$ (1,598)	$ –	$ (1,460)	$ 51,294

10. Capital Assets (continued)

Primary Government (continued)

Depreciation expense was charged to functions/programs of the PG for the year ended September 30, 2010 as follows (expressed in thousands):

Governmental activities:		
General government	$	10,893
Public safety		1,699
Health		6,079
Education		1,248
Public Housing and Welfare		255
Culture and recreation		7,249
Transportation and communication		745
Total depreciation expense – governmental activities	$	28,168
Business-type activities:		
WICO	$	1,906
Other enterprise funds		1,685
Total depreciation expense – business-type activities	$	3,591

10. Capital Assets (continued)

Component Units

The capital assets activity for the discretely presented component units for the year ended September 30, 2010 is summarized as follows (expressed in thousands):

	Beginning Balance *(As restated)*	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 132,582	$ 6,434	$ 32	$ (15,212)	$ 123,836
Construction in progress	106,065	58,032	(91,187)	(2)	72,908
	238,647	64,466	(91,155)	(15,214)	196,744
Other capital assets:					
Building and improvements	1,377,310	28,579	78,667	(1,657)	1,482,899
Airport and marine terminal facilities	123,233	–	10,241	–	133,474
Personal property and equipment	117,005	6,493	2,247	(680)	125,065
Intangible assets	2,604	–	–	–	2,604
	1,620,152	35,072	91,155	(2,337)	1,744,042
Less accumulated depreciation for:					
Building and improvements	(805,701)	(47,659)	–	2,982	(850,378)
Airport and marine terminal facilities	(89,294)	(5,630)	–	–	(94,924)
Personal property and equipment	(77,970)	(8,274)	–	775	(85,469)
Intangible assets	(275)	(173)	–	–	(448)
	(973,240)	(61,736)	–	3,757	(1,031,219)
Other capital assets, net of accumulated depreciation	646,912	(26,664)	91,155	1,420	712,823
Capital assets, net	$ 885,559	$ 37,802	$ –	$ (13,794)	$ 909,567

10. Capital Assets (continued)

Component Units (continued)

Depreciation expense charged by each component unit for the year ended September 30, 2010 was as follows (expressed in thousands):

Virgin Islands Housing Authority	$ 3,512
Virgin Islands Port Authority	18,496
Virgin Islands Water and Power Authority:	
Electric System	21,562
Water System	3,814
Virgin Islands Government Hospital and Health Facilities Corporation:	
Roy L. Schneider Hospital	4,888
Juan F. Luis Hospital	3,794
University of the Virgin Islands	2,407
Other component units	3,263
Total depreciation expense– component units	$ 61,736

11. Long-Term Liabilities

The change in long-term bonds and loans for governmental activities was as follows for the year ended September 30, 2010 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Bonds payable:						
2010 Series A & B Revenue Bonds	$ -	$ 399,050	$ -	$ 399,050	$ –	$ 399,050
2009 Series A Revenue Bonds (Cruzan)	–	39,190	–	39,190	550	38,640
2009 Sereis A-1, A-2, B & C Revenue and Refunding Bonds	–	458,840	–	458,840	8,460	450,380
2009 Series A Revenue Bonds (Diageo)	250,000	–	–	250,000	–	250,000
2006 Series A Revenue Bonds	217,495	–	(1,530)	215,965	1,580	214,385
2006 Series A Tobacco Bonds	7,290	–	–	7,290	–	7,290
2004 Series A Revenue Bonds	82,310	–	(3,450)	78,860	3,625	75,235
2003 Series A Revenue Bonds	255,815	–	(3,360)	252,455	3,495	248,960
2001 Series A Tobacco Bonds	18,260	–	(1,415)	16,845	1,165	15,680
1999 Series A Revenue Bonds	93,925	–	(6,230)	87,695	6,580	81,115
1999 General Obligation Bonds,	600	–	(600)	–	–	–
1998 Series Revenue and Refunding Bonds	395,505	–	(395,505)	–	–	–
Total bonds payable	1,321,200	897,080	(412,090)	1,806,190	25,455	1,780,735
Plus (less):						
Deferred costs on refundings	(15,106)	(1,582)	854	(15,834)	(854)	(14,980)
Bonds premium	15,902	18,333	(1,447)	32,788	1,447	31,341
Bonds discount	(7,106)	(1,152)	2,056	(6,202)	(737)	(5,465)
Bonds accretion	1,829	609	–	2,438	2,438	–
Total bonds payable, net	1,316,719	913,288	(410,627)	1,819,380	27,749	1,791,631
Loans payable:						
Series 2009 A Tax Increment Notes	6,031	4,000	–	10,031	–	10,031
Series 2009 B Working Capital Notes	100,000	106,400	(200,000)	6,400	–	6,400
Series 2009 Note	8,000	–	(708)	7,292	1,472	5,820
Series 2008 Note	5,006	–	(2,557)	2,449	2,449	–
Total loans payable	119,037	110,400	(203,265)	26,172	3,921	22,251
Total governmental bonds and loans	$ 1,435,756	$ 1,023,688	$ (613,892)	$ 1,845,552	$ 31,670	$ 1,813,882

11. Long-Term Liabilities (continued)

The change in other long-term liabilities for governmental activities were as follows for the year ended September 30, 2010 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Other liabilities:						
Accrued compensated absences	$ 54,325	$ 5,763	$ –	$ 60,088	$ 11,576	$ 48,512
Retroactive union arbitration	231,835	–	–	231,835	36,549	195,286
Accrued litigation	16,639	6,448	(2,283)	20,804	1,138	19,666
Landfill closure and postclosure costs	170,949	2,362	–	173,311	–	173,311
Post employment benefit and other	93,915	51,287	–	145,202	–	145,202
Total other liabilities	$ 567,663	$ 65,860	$ (2,283)	$ 631,240	$ 49,263	$ 581,977

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

Changes in long-term liabilities for business-type and fiduciary activities were as follows for the year ended September 30, 2010 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Business-type activities:						
Workers compensation claims	$ 15,495	$ 10,643	$ (8,238)	$ 17,900	$ 8,652	$ 9,248
Loan payable - U.S. Treasury	3,010	13,115	–	16,125	–	16,125
Capital Lease - WICO	358	–	(170)	188	188	–
Note payable - WICO	23,157	–	(436)	22,721	471	22,250
Total business-type activities	$ 42,020	$ 23,758	$ (8,844)	$ 56,934	$ 9,311	$ 47,623
Fiduciary activities:						
Note payable:						
Pension trust fund	$ 7,313	$ 2,650	$ –	$ 9,963	$ 9,963	$ –

11. Long-Term Liabilities (continued)

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 cause to be issued 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.

11. Long-Term Liabilities (continued)

Bonds Payable

Bonds payable outstanding at September 30, 2010 are comprised of the following (thousands):

On July 8, 2010, the Public Finance Authority (PFA) issued the 2010 Series A and B Revenue Bonds, the proceeds of which amounted to $399.1 million. The Government has pledged matching funds for the timely payment of the principal and interest on the 2010 Series A and B

Bonds Payable	Final Maturity	Interest Rates (%)	Balance
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	$ 399,050
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	39,190
2009 Series A-1, A-2, B & C Revenue and Refunding Bonds	2040	3.00 - 5.00	458,840
2009 Series A Revenue Bonds (Diageo)	2038	6.00 - 6.75	250,000
2006 Series A Revenue Bonds	2029	3.50 - 5.00	215,965
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2004 Series A Revenue Bonds	2025	4.00 - 5.25	78,860
2003 Series A Revenue Bonds	2033	4.00 - 5.25	252,455
2001 Series A Tobacco Bonds	2031	5.00	16,845
1999 Series A Revenue Bonds	2020	4.20 - 6.50	87,695
Subtotal			1,806,190
Plus (less):			
Deferred costs on refundings			(15,834)
Bonds premium			32,788
Bonds discount			(6,202)
Bonds accretion			2,438
Total			$ 1,819,380

Revenue Bonds. The 2010 Series A Bonds, amounting to $305.0 million, bear interest at rates ranging from 4.0% to 5.0% mature from 2012 to 2029. The 2010 Series B Bonds, amounting to $94.1 million, bear interest at rates ranging from 4.2% to 5.2% and mature from 2020 to 2029. The bonds were issued to: (i) provide working capital to the PG to finance certain operating expenses and other obligations of the Government (the "Working Capital Cost), (ii) refinance a portion of the outstanding principal due on the Working Capital Credit Facility, (iii) fund the Series 2010A Senior Lien Debt Service Reserve Subaccount in an amount necessary to meet the Series 2010A Debt Service Reserve Requirement, and (iv) pay the costs of issuing the bonds.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

The 2010 Series A Bonds maturing on October 1, in the years 2020, 2025, and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

The 2010 Series B Bonds maturing on October 1, in the years 2025 and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption

The matching funds pledged for the payment of the bonds consist of annual advance payments received from the U.S. Department of the Treasury of excise taxes imposed and collected under the Internal Revenue laws of the United States on rum products produced in the U.S. Virgin Islands 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.

Amounts to be received by the Government from federal rum excise tax are deposited directly into Special Escrow Account held by the Special Escrow Agent in accordance with the Indenture of Trust for bond debt service payments. The amounts to be received are 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 recognized as income in the period in which the revenue recognition criteria is met.

The rate of federal rum excise tax is determined by Congress. As part of the Tax Relief Extension Act of 1999, Congress increased the federal rum excise tax rate from $10.50 to $13.25 per proof gallon. Since then, Congress has extended the higher rate six times.

On December 17, 2009, PFA issued the 2009 Series A Revenue Bonds (the "Cruzan Bonds) amounting to $39.2 million. The Government has pledged matching funds generated from the sale of Cruzan rum products for the timely payment of the principal and interest of the Cruzan Bonds. The Cruzan Bonds bear interest at rates ranging from 3.0% to 6.0% and mature from 2010 to 2039.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

The Series 2009A Bonds “Cruzan Bonds” were issued to: (i) to provide a loan to Cruzan VIRIL, Ltd. (Cruzan) to finance the costs of the development, acquisition, construction and installation of a wastewater treatment facility and to fund certain primary costs of the alteration, upgrade, expansion, and renovation of the Cruzan distillery on the island of St. Croix, (ii) fund debt service reserve accounts in an amount necessary to meet the requirements and (iii) pay the costs of issuing the bonds. The bonds maturing October 1, 2039 are subject to mandatory sinking fund redemptions beginning October 1, 2020, at a redemption price equal to 100% of the principal amount plus interest accrued to the date of redemption.

In association with the issuance of the Cruzan Bonds, the Government entered into an agreement with Cruzan on October 6, 2009, to provide marketing support payments, production incentive payments, continuation of molasses subsidies and other tax incentives to retain Cruzan as part of the rum industry in the U.S. Virgin Islands. Marketing and incentive payments to Cruzan amounted to $40.2 million for the year ended September 30, 2010.

On October 1, 2009, PFA issued the 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds, the proceeds of which amounted to $458.8 million. The Government has pledged matching funds for the timely payment of principal and interest on the 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds. The 2009 Series A-1 Bonds amounted to $86.4 million. The 2009 Series A-1 Bonds bear interest at rates ranging from 3.0% to 5.0% and mature from 2010 to 2039. The 2009 Series A-2 Bonds amounted to $8.7 million. The 2009 Series A-2 Bonds bear an interest rate of 3.0% and mature from 2010 to 2011. The Series A-1 and A-2 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

The 2009 Series B Bonds amounted to $266.3 million, bear an interest rate of 5.0%, and mature from 2010 to 2025. The 2009 Series B Bonds were issued to: (i) current refund the 1998 Series A Bonds, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

The 2009 Series C Bonds amounted to $97.4 million, bear an interest rate of 5.0% and mature from 2010 to 2022. The 2009 Series C Bonds were issued to: (i) current refund the 1998 Series E Revenue and Refunding Bonds, (ii) fund debt service reserve accounts and (iii) pay certain costs of issuing the bonds.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

The current refunding of the 1998 Series A and E Bonds, on October 28, 2009, was made in order to obtain lower interest rates. The economic gain obtained by this current 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 $35.9 million and an economic gain of approximately $35.6 million.

The 2009 Series A-1, B and C Bonds are subject to mandatory sinking fund installment redemptions beginning October 1, 2020 at a redemption price equal to 100% of the principal amount, plus interest accrued, to the date of redemption.

On July 9, 2009, PFA issued the 2009 Diageo Matching Fund Bonds (2009 Series Bonds) amounting to $250.0 million. The Diageo Bonds bear interest at 6.0% to 6.75% and mature from 2013 to 2038. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2009.

The proceeds of the bonds were issued to: (i) provide a grant to Diageo USVI, Inc. (Diageo USVI) to finance the cost of acquisition, design, development, construction, and quipping of a rum production and maturation warehouse facility to be located on the island of St. Croix (Diageo Project), (ii) to redeem the Subordinated Revenue Bond Anticipation Notes Series 2009A issued to finance preliminary costs of the Diageo construction project, (iii) to fund debt service reserve accounts, and (iv) pay capitalized interest, and (v) pay certain costs associated with the issuance of the bonds.

The PG has pledged matching funds generated from the sale of Captain Morgan rum products (produced by Diageo USVI) for the timely payment of the principal and interest on the Diageo Bonds. The Diageo Bonds maturing on or after October 1, 2020 are subject to optional redemption on or after October 1, 2019, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

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.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

The 2006 Series Bonds bear interest at 3.5% to 5.0% 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 $180.0 million in funds were deposited into the Escrow Fund accounts. At September 30, 2010, $162.9 million of defeased 1999 Bonds remained outstanding.

On March 15, 2006, the Tobacco Settlement Financing Corporation (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 million (net of accretion of $40.8 million). 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 hospitals 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 7.625%. 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.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On December 1, 2004, PFA issued the 2004 Series A Bonds, the proceeds of which amounted to $94.0 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 4.0% to 5.25% and mature from 2005 to 2025. 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 December 17, 2003, PFA issued the Series 2003A Revenue Bonds, the proceeds of which amounted to approximately $268.0 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) to 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. The Series 2003A Revenue Bonds are not subject to optional redemption prior to October 1, 2014.

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Asset-Backed Series A Bonds amounting to $21.7 million of the 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 each May and November 15 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.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

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, 2010 amounted to $16.8 million. 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, 2010, resulted in early redemption of $315.0 thousand during fiscal year 2010.

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) finance 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 $180.0 million was deposited with the refunding bond escrow agent to fund the Escrow Fund accounts. At September 30, 2010, $87.7 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 $133.3 million for the year ended September 30, 2010.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

Governmental Activities – Bonds

	Revenue Bonds Series 1999 A		Tobacco Bonds Series 2001 A		Revenue Bonds Series 2003 A		Revenue Bonds Series 2004 A		Revenue Bonds Series 2006	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2011	$ 6,580	$ 5,356	$ 1,165	$ 832	$ 3,495	$ 12,609	$ 3,625	$ 3,999	$ 1,580	$ 10,429
2012	6,950	4,948	1,265	778	3,635	12,448	3,805	3,814	2,705	10,330
2013	7,395	4,485	1,335	718	3,815	12,262	3,995	3,619	2,805	10,192
2014	7,865	4,057	1,405	653	4,010	12,066	4,195	3,414	2,905	10,049
2015	8,365	3,546	–	584	4,210	11,860	4,405	3,199	3,015	9,901
2016 – 2020	50,540	8,345	–	2,919	24,550	55,685	25,675	12,212	16,825	47,087
2021 – 2025	–	–	3,630	2,193	31,660	48,415	33,160	4,530	84,735	35,336
2026 - 2030	–	–	–	2,011	40,450	39,411	–	–	101,395	12,306
2031 - 2035	–	–	8,045	402	136,630	14,079	–	–	–	–
Total	$ 87,695	$ 30,737	$ 16,845	$ 11,090	$ 252,455	$ 218,835	$ 78,860	$ 34,787	$ 215,965	$ 145,630

	Tobacco Bonds Series 2006		Revenue Bonds Series 2009 A (Diageo)		Revenue Bonds Series 2009 A-1		Revenue Bonds Series 2009 A-2		Revenue Bonds Series 2009 B	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2011	$ –	$ –	$ –	$ 16,703	$ 1,460	$ 4,019	$ 2,000	$ 229	$ 3,500	$ 13,229
2012	–	–	–	16,703	1,505	3,974	6,650	100	15,145	12,763
2013	–	–	–	16,703	1,550	3,928	–	–	15,920	11,986
2014	–	–	4,040	16,581	1,600	3,881	–	–	16,740	11,170
2015	–	–	4,290	16,331	1,650	3,830	–	–	17,600	10,311
2016 – 2020	–	–	26,290	76,817	9,230	18,166	–	–	102,505	37,055
2021 – 2025	–	–	36,730	66,380	11,525	15,872	–	–	86,410	12,043
2026 – 2030	–	–	51,150	51,952	14,705	12,693	–	–	8,510	213
2031 – 2035	48,145	–	71,485	31,618	18,885	8,515	–	–	–	–
2036 – 2040	–	–	56,015	5,842	24,240	3,151	–	–	–	–
Less unamortized discount	(40,855)	–	–	–	–	–	–	–	–	–
Total	$ 7,290	$ –	$ 250,000	$ 315,630	$ 86,350	$ 78,029	$ 8,650	$ 329	$ 266,330	$ 108,770

	Revenue Bonds Series 2009 C		Revenue Bonds Series 2009 A (Cruzan)		Revenue Bonds Series 2010 A		Revenue Bonds Series 2010 B		Total Government Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2011	$ 1,500	$ 4,838	$ 550	$ 2,244	$ –	$ 10,800	$ –	$ 3,437	$ 25,455	$ 88,724
2012	6,350	4,642	565	2,227	–	15,188	–	4,833	$ 48,575	$ 92,748
2013	6,675	4,316	585	2,210	1,990	15,148	–	4,833	$ 46,065	$ 90,400
2014	7,015	3,974	605	2,186	2,065	15,067	–	4,833	$ 52,445	$ 87,931
2015	7,210	3,618	640	2,154	2,155	14,983	–	4,834	$ 53,540	$ 85,151
2016 – 2020	42,230	12,092	3,715	10,247	12,645	73,183	–	24,167	$ 314,205	$ 377,975
2021 – 2025	26,530	1,957	4,900	9,059	61,670	65,458	26,340	22,513	$ 407,290	$ 283,756
2026 – 2030	–	–	6,625	7,343	224,475	30,074	67,710	9,243	$ 515,020	$ 165,246
2031 – 2035	–	–	8,940	5,025	–	–	–	–	$ 292,130	$ 59,639
2036 – 2040	–	–	12,065	1,896	–	–	–	–	$ 92,320	$ 10,889
Less unamortized discount	–	–	–	–	–	–	–	–	(40,855)	–
	$ 97,510	$ 35,437	$ 39,190	$ 44,591	$ 305,000	$ 239,901	$ 94,050	$ 78,693	$ 1,806,190	$ 1,342,459

11. Long-Term Liabilities (continued)

Conduit Debt

In March 2007, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the “Series 2007 Tax-Exempt Bonds”, amounting to $104.1 million, to finance modifications to diesel and gasoline desulfurization units for a refinery on the island of St. Croix. The bonds have an interest rate of 4.7% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a 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. As of September 30, 2010, $104.1 million of the bonds remain outstanding.

In April 2004, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the “Series 2004 Tax-Exempt Bonds”, amounting to $50.6 million, to finance construction of a delayed coking unit for a refinery on the island of St. Croix. The bonds have an interest rate of 5.9% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a 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. As of September 30, 2010, $50.6 million of the bonds remain outstanding.

In December 2003, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the “Series 2003 Tax-Exempt Bonds”, amounting to $74.2 million, to finance the costs of a Clean Fuels Program for a refinery on the island of St. Croix. The Clean Fuels Program consists of three major projects to comply with regulatory standards for low sulfur gasoline. The Clean Fuels Program is a federally mandated program effective January 2004. The bonds have an interest rate of 6.1% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a 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. As of September 30, 2010, $74.2 million of the bonds remain outstanding.

11. Long-Term Liabilities (continued)

Conduit Debt (continued)

In November 2002, the PFA and the PG issued private activity bonds, the Refinery Facilities Revenue Bonds (HOVENSA Coker Project), the "Series 2002 Tax-Exempt Bonds", amounting to $63.8 million and $63.0 million, respectively ($126.8 million in total) to finance costs of construction of a coker plant for a refinery on the island of St. Croix. The bonds have an interest rate of 6.50% and are limited obligations of PFA and the PG, payable solely from and are secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA, PG 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. As of September 30, 2010, $126.8 million of the bonds remain outstanding.

Notes Payable

On September 25, 2009, PFA entered into the Tax Increment Revenue Bond Anticipation Note Purchase Agreement (the Agreement) with a local bank. Under the terms of the Agreement, the bank will purchase up to $15.7 million in federally taxable Bond Anticipation Notes (the Series 2009A Notes). The purpose of the Series 2009A Notes is to provide a loan to the PG (the Series 2009A Tax Increment Revenue Loan Note) to finance the developmental costs of a shopping complex on the island of St. Croix. The Series 2009A Notes have a term of three years, maturing on October 1, 2012, with interest of 300 points above the J.P. Morgan Chase Prime Rate or 6.25%, whichever is higher. On October 1, 2012, the Series 2009A Notes will convert to a term loan with payments in eleven quarterly payments, with a final payment on October 1, 2015. Under the terms of the Agreement, PFA may issue Tax Increment Revenue Bonds to defease the debt prior to that date. As of September 30, 2010, PFA had sold $10.0 million in Series 2009A Notes.

The proceeds were used to: (i) fund a capitalized interest account and (ii) fund the first phase of the development of the shopping center complex. The debt is a special limited obligation of the PG, secured by Tax Incremental Financing (TIF) revenues. TIF revenues consist of 100% of the incremental property taxes and 90% of the incremental gross receipts taxes, derived from the development project.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

Debt service requirements for the Series 2009A Notes at September 30, 2010 were as follows (expressed in thousands):

Year	Principal
2013	$ 128
2014	181
2015	193
2016	9,529
	$ 10,031

On September 18, 2009, PFA issued the Subordinated Lien Revenue Bond Anticipation Notes (Series 2009B Notes) in two series: the Series 2009 B-1 Notes in the aggregate amount of $150 million with the agent lender First Bank of Puerto Rico and the Series B-2 Notes in the aggregate amount of $100 million with the agent lender Banco Popular de Puerto Rico. Both Series B-1 and B-2 accrue interest at a rate of 400 points above the 90-day LIBOR rate, not to exceed a maximum rate of 5.5%. Interest payments are due the first business day of the month, effective October 1, 2009. The purpose of the Notes is to provide working capital to the PG for operating expenses and to pay the costs of the issuances. The Series 2009B Notes are general obligations of the PG. The PG has also pledged a security interest in gross receipts tax collections.

During fiscal years 2009 and 2010, the Government drew down $60.0 million and $63.8 million under the Series 2009 B-1 Notes, and $40.0 million and $42.6 million under the Series 2009 B-2 notes (a total of $100 million in fiscal year 2009 and $106.4 million in fiscal year 2010).

On July 8, 2010, the Government repaid $200.0 million of the Series 2009 B Notes with the issuance of the Series 2010A and Series 2010B Revenue and Refunding Bonds. As of September 30, 2010, the PG had an outstanding balance of $3.8 million under the Series 2009 B-1 Notes, and $2.6 million under the Series 2009 B-2 Notes (a total of $6.4 million). The Series 2009B Notes have a stated maturity date of October 1, 2012.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

Debt service requirements for the Series 2009B Notes at September 30, 2010 were as follows (expressed in thousands):

Year	Principal
2013	$ 6,400

In August 2009, the current unemployment insurance taxes and reserve balances of the Unemployment Trust Fund (UTF) held by the U.S. Treasury became inadequate to cover territory expenditures for unemployment compensation (UC) benefits. UC benefits are an entitlement program and the PG is legally liable to pay benefits even if the UTF becomes insolvent. As of September 30, 2010, the PG had borrowed $16 million from the U.S. Treasury Federal Unemployment Account (FUA) to meet U.C. obligations. The American Recovery and Reinvestment Act of 2009 (P.L. 111-5 Section 2004) temporarily waives interest payments and the accrual of interest on FUA loans.

On February 12, 2009, PFA issued the Subordinate Lien Revenue Bond Anticipation Notes (Series 2009 Notes), in the amount of $8.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2009 Notes. The Series 2009 Notes initially had an interest rate of 4.8% and a due date of February 1, 2010. PFA elected a conversion of the Series 2009 Notes to term notes with principal and interest payable semi-annually on February 1 and August 1, at an interest rate of 5.4% and a maturity date of August 1, 2015. The proceeds of the Series 2009 Notes were issued: (i) to finance the purchase and installation of 911 emergency communication equipment for the Virgin Islands Police Department and (ii) to pay certain costs of issuing the Series 2009 Notes.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

Debt service requirements for the Series 2009 Notes at September 30, 2010 were as follows (expressed in thousands):

Year	Principal	Interest
2011	$ 1,473	$ 374
2012	1,553	294
2013	1,639	208
2014	1,728	119
2015	899	24
Total	$ 7,292	$ 1,019

On August 12, 2008, PFA issued the Subordinate Lien Revenue Notes, Series 2008 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $7.7 million (the Series 2008 Notes). The Series 2008 Notes accrue interest monthly at a rate of 4.8% for 36 months. The proceeds of the Series 2008 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 2008 Notes. The PG has pledged gross receipts taxes for the payment of the Series 2008 Notes.

Debt service requirements for the Series 2008 Notes at September 30, 2010 were as follows (expressed in thousands):

Year	Principal	Interest
2011	$ 2,449	$ 59

11. Long-Term Liabilities (continued)

Notes Payable (continued)

On June 1, 2008, WICO refinanced its outstanding notes payable and obtained an additional $2.3 million in financing for infrastructure improvements. The consolidated notes amounted to $23.6 million, to be repaid in 120 consecutive monthly installments of $154.9 thousands at a fixed interest rate of 6.2%, plus a final payment of the balance of principal, plus any unpaid interest, in 2018. The notes may be prepaid, in whole, or in part, at any time without penalty.

WICO has pledged all leases and revenues to secure the notes, and may not declare dividends, or issue additional equity interests without lender approval.

As of September 30, 2010, WICO was not in compliance with note covenants requiring 1) minimum operating revenue thresholds and 2) the maintenance of a restricted debt service reserve account equal to debt service requirements for the following year. On May 13, 2011, WICO obtained a waiver from the lender for its failure to comply with these covenants.

Debt service requirements for the WICO loan at September 30, 2010 were as follows (expressed in thousands):

Year:	Principal
2011	$ 471
2012	486
2013	525
2014	558
2015	594
2016 - 2020	20,087
Total	$ 22,721

11. Long-Term Liabilities (continued)

Fiduciary Funds – Notes Payable

On October 2, 2006, GERS entered into a loan agreement with Banco Popular de Puerto Rico to provide working capital and to pay issuance and closing costs associated with the agreement. The line of credit is a revolving credit facility with a maximum principal amount of $25.0 million, which accrues interest at a fixed interest rate of 6.3% calculated on a 360-day basis and is due and payable quarterly, commencing on the first day of the fourth calendar month following the closing of the loan. The line of credit facility is available to GERS for a period up to three years, subject to annual renewals. At any time that an event of default occurs, the loan will bear interest at a rate equal to 3% above a variable interest rate based on the bank's transfer rate. The bank retains a certificate of deposit in the amount of $20.0 million as security on the loan agreement. As of September 30, 2010, the outstanding balance under the line-of-credit agreement was $9.9 million.

11. 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. Bonds payable, outstanding at September 30, 2010, are as follows (expressed in thousands):

Bonds Payable	Maturity	Interest Rates (%)	Balance
University of the Virgin Islands:			
General obligation bonds of 2004	2035	2.02 – 5.38	$ 20,245
General obligation bonds of 1999	2029	4.75 – 5.95	20,960
Virgin Islands Water and Power Authority (Electric System)			
Revenue bonds of 2010	2033	5.0	85,335
Revenue bonds of 2007	2031	5.0	57,585
Revenue bonds of 2003	2023	4.00 – 5.00	62,490
Revenue bonds of 1998	2021	4.25 – 5.30	22,880
Virgin Islands Water and Power Authority (Water System)			
Revenue bonds of 1998	2017	4.90 – 5.50	24,545
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	8,000
Series C Revenue bonds of 2003	2023	4.40	8,654
Virgin Islands Housing Finance Authority:			
Revenue bonds of 1995	2025	5.50 – 6.50	1,100
Revenue bonds of 1998	2028	4.10 – 5.25	1,710
Subtotal			331,509
Plus unamortized premium			6,370
Less unamortized discount			(612)
Less deferred costs on debt refunding and reacquisition			(1,200)
Bonds payable, net			336,067
Less amount due within one year			(13,599)
Bonds payable, due in more than one year			$ 322,468

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Following is a schedule of changes in bonds payable, loans payable and other long-term liabilities for discretely presented component units for fiscal year ended September 30, 2010 (expressed in thousands):

	Beginning Balance (As restated)	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable:						
University of the Virgin Islands	$ 41,414	$ 22	$ (690)	$ 40,746	$ 725	$ 40,021
Virgin Islands Water and Power Authority:						
Electric System	193,305	87,622	(47,026)	233,901	8,020	225,881
Water System	25,944	–	(2,116)	23,828	2,540	21,288
Virgin Islands Port Authority	36,639	–	(1,857)	34,782	1,939	32,843
Virgin Islands Housing Finance Authority	3,030	–	(220)	2,810	375	2,435
Total bonds payable, net	300,332	87,644	(51,909)	336,067	13,599	322,468
Loans payable:						
Virgin Islands Economic Development Authority	610	–	(66)	544	71	473
Virgin Islands Water and Power Authority:						
Electric System	64,816	6,000	(16,355)	54,461	7,799	46,662
Virgin Islands Port Authority	1,474	2,695	(2,868)	1,301	1,301	–
Virgin Islands Housing Finance Authority	2,098	–	(282)	1,816	289	1,527
University of the Virgin Islands	1,843	–	(110)	1,733	116	1,617
Total loans payable	70,841	8,695	(19,681)	59,855	9,576	50,279
Other long-term liabilities:						
University of the Virgin Islands	90	25	–	115	–	115
Virgin Islands Housing Authority	7,433	–	(919)	6,514	487	6,027
Virgin Islands Water and Power Authority:						
Electric System	10,915	5,894	–	16,809	–	16,809
Water System	2,560	1,383	–	3,943	–	3,943
Juan F. Luis Hospital	894	–	(417)	477	240	237
Waste Management Authority	2,865	–	–	2,865	–	2,865
Virgin Islands Housing Finance Authority	20,087	–	222	20,309	–	20,309
Total other long-term liabilities	$ 44,844	$ 7,302	$ (1,114)	$ 51,032	$ 727	$ 50,305

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

On June 1, 2004, the University of the Virgin Islands issued the General Obligation Improvement Bonds, (the 2004 Series A Bonds) 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.

On December 16, 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.

On March 30, 2010, the Electric System of WAPA issued the $39.1 million 2010A Electric System Revenue Refunding Bonds; the $8.9 million 2010B Electric System Revenue Bonds; and the $37.3 million 2010C Electric System Revenue Refunding Bonds. The proceeds of the Series 2010A Bonds will be used to: (i) refund a portion of the Electric System Revenue Refunding Bonds, Series 1998, and (ii) pay certain costs of issuance of the Series 2010A Bonds. The proceeds of the Series 2010B and 2010C Bonds were used to: (i) finance certain capital expenditures temporarily funded through draws on a line of credit ($9.0 million), and (ii) to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the three series were also used to pay certain costs of issuance of the 2010A, 2010B, and 2010C Revenue and Refunding Bonds.

On June 28, 2007, the Electric System of WAPA issued the $57.6 million 2007A Electric System Subordinated Revenue Bonds, to pay certain costs of issuance of the bonds, to finance the costs of certain capital improvements, refinance capital improvements funded through draws on a Line of Credit and reinstall a $10.0 million Line of Credit.

On June 15, 2003, the 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 $18.0 million of then outstanding lines-of-credit, cover underwriters' costs, and establish a debt service fund.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

On June 1, 1998, the Electric System of WAPA issued $110.9 million of 1998 Series A Electric System Revenue and Refunding Bonds. The proceeds from the bonds, and approximately $14.0 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 $30.0 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 $69.0 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.

Under the General Resolution, the Authority is required to maintain a Debt Service coverage ratio at least equal to 1.25 times the principal of and interest on all Outstanding Senior Bonds for the current and each future fiscal year (the Senior Coverage). Under the Electric System Subordinated Revenue Bond Resolution, adopted by the Authority on May 17, 2007, as amended and supplemented (the Subordinated Bond Resolution), the Authority must satisfy the Debt Service coverage ratio of the General Resolution for the Senior Bonds, must maintain a Subordinated Debt Service coverage ratio at least equal to 1.15 times the principal of and interest on all Outstanding Bonds (the Senior and Subordinate Coverage) and all Outstanding Subordinated Bonds for the current and each future fiscal year, and must maintain at least 1.0 times the Maximum Aggregate Debt Service for each such fiscal year (total debt coverage).

The Electric System's net electric revenue for the fiscal year ended June 30, 2010 yielded the following coverage ratios: Senior Coverage, 180%; Senior and Subordinate Coverage, 151%; Total Debt Coverage, 101%.

The Series 2003 Bonds maturing on or after July 1, 2023 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.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

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.

On June 1, 1998, the Water System of WAPA 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.

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, 2010 was 109% of the aggregate debt service as defined in the Bond Resolution.

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% 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.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

On January 16, 2003, VIPA issued the Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable) with principal amounts of approximately $18.0 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 cruise and seagoing vessels at Crown Bay in St. Thomas, and the construction of a mixed used commercial facility.

On October 20, 2003, VIPA issued the Marine Revenue Bonds Series 2003C (non-AMT), with an authorized principal amount not to exceed approximately $10.8 million. VIPA used 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 at Crown Bay on the island of St. Thomas, and the construction at Red Hook, Enighed Pond, Gallows Bay Dock, and dredging of the Charlotte Amalie Harbor.

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 (as defined) of the Authority's 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.

VIPA did not comply with the requirement to issue the audited financial statements within 150 days after year-end. However, as per the Authority's bond indenture, this noncompliance event does not constitute an event of default until the Trustee sends a notification of failure and such failure continues for 90 days. The Authority has not received a notification of failure from the Trustee.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

On March 1, 1995, VIHFA issued the 1995 Revenue Bonds Series A in the amount of $6.2 million, and on August 1, 1998 the 1998 Revenue Bonds Series A, 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, 2010 are as follows (expressed in thousands):

Year	Principal	Interest	Total
2011	$ 14,034	$ 16,597	$ 30,631
2012	12,106	16,042	28,148
2013	12,684	15,483	28,167
2014	13,253	14,897	28,150
2015	13,873	14,244	28,117
2016 – 2020	78,900	59,340	138,240
2021 – 2025	69,909	41,099	111,008
2026 – 2030	75,890	23,698	99,588
2031 – 2035	40,860	6,116	46,976
Total	331,509	$ 207,516	$ 539,025
Plus unamortized premium	6,370		
Less unamortized discount	(612)		
Less deferred costs on debt refunding and reacquisition	(1,200)		
Bonds payable, net	$ 336,067		

12. General Tax Revenue

For the year ended September 30, 2010, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 316,121	$ –	$ –	$ –	$ 316,121
Real property taxes	18,463	–	–	17,083	35,546
Gross receipts taxes	6,985	121,743	4,341	250	133,319
Excise taxes rum products	101,853	50,410	–	3,798	156,061
Other taxes	49,017	–	–	1,131	50,148
Tax revenue	$ 492,439	$ 172,153	$ 4,341	$ 22,262	691,195
Tax revenue not recognized on the modified accrual basis					171,868
Total tax revenue - government-wide					$ 863,063

13. 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.

As of September 30, 2010, the Government has contractual liabilities for retroactive union arbitration salary increases estimated at $231.8 million accruing from fiscal years 1993 through 2010, as established by the Virgin Islands Retroactive Wage Commission.

13. Commitments and Contingencies

Primary Government

Under Title 24, Section 374(h) of the V.I. Code, the PG may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature. The Legislature subsequently appropriated $45.0 million for an initial payment of $36.5 million of retroactive wages, and related payroll costs of $8.5 million, which was paid on October 14, 2010. Until additional appropriations are made by the Legislature, the retroactive salary liability is recorded as a liability in the governmental activities column in the government-wide statement of net assets (deficit).

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Loans received are described in Note 11. Monetary and nonmonetary federal financial assistance amounted to approximately $282.1 million and $42.9 million, respectively, for the year ended September 30, 2010.

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.

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 Section 101(c) of the Act, United States possessions with mirror code tax systems (Guam, U.S. Virgin Islands and the Commonwealth of the Northern Mariana Islands) were entitled to receive a loss reimbursement from the federal government for the economic hardship of providing rebates to taxpayers, and to ensure timely payment of the rebates. On April 28, 2008, the PG received a loss reimbursement amounting to $41.5 million. As of September 30, 2010, the PG had expended $36.5 million of the loss reimbursement.

In February 2009, the federal government passed the American Recovery and Reinvestment Act (ARRA) to create jobs and stimulate the economy. Under Title I, Section 1001(b) of ARRA, eligible working taxpayers receive a Making Work Pay refundable tax credit of $400 to $800, depending on the taxpayer’s income and filing status for years 2009 and 2010. ARRA provides for mirror code tax system possessions (Guam, U.S. Virgin Islands and the Commonwealth of the Northern Mariana Islands) to receive quarterly loss reimbursements for the economic hardship of this tax provision. During 2009 and 2010, the PG received $23.4 and 21.1 million respectively in loss reimbursements.

13. Commitments and Contingencies (continued)

Primary Government (continued)

Management of the Government believes that the future outcome of any changes in federal financial assistance programs will not have a material adverse 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. On August 22, 2006, the PG entered into a contract with a third-party fiduciary to administer U.S. Department of Education grants, effective October 1, 2006. The terms and conditions of the original compliance agreement have been extended until the Government is in full compliance with the agreement.

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 $20.8 million for awarded and anticipated unfavorable judgments as of September 30, 2010. Management believes that any liability in excess of amounts recorded will not have a material effect on the basic financial statements.

13. Commitments and Contingencies (continued)

Primary Government (continued)

Changes in the reported provision for legal claims since October 1, 2008 and October 1, 2009, resulted from the following activity (expressed in thousands):

	Beginning Balance at October 1, 2008	New Claims	Claim Payments and Changes in Estimates	Ending Balance at September 30, 2010
Provision for legal claims	$ 14,132	$ 6,862	$ (4,355)	$ 16,639

	Beginning Balance at October 1, 2009	New Claims	Claim Payments and Changes in Estimates	Ending Balance at September 30, 2010
Provision for legal claims	$ 16,639	$ 6,449	$ (2,284)	$ 20,804

The breakdown of the provision for legal claims at September 30, 2010 is as follows (expressed in thousands):

Governmental activities	
Current portion of provision for legal claims	$ 1,138
Long-term portion of provision for legal claims	19,666
	$ 20,804

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 at values higher than the 1998 assessed value.

13. Commitments and Contingencies (continued)

Primary Government (continued)

The Government complied with the Court order to develop a plan to implement the new valuation method. In February 2007, the 2005 property tax assessments, based on 1998 assessment levels, were issued. In August 2008, the 2006 property tax assessments, based at actual value in accordance with the Organic Act of 1933, were issued. In September 2008, the 2006 property tax bills were rescinded by court order. In May 2009, the Government received court approval to reissue the 2006 property tax assessments; however, that approval was rescinded in June 2009. The Government subsequently issued the 2006, 2007 and 2008 property tax assessments, based on 1998 assessment levels, in April 2010, February 2011, and August 2011 respectively.

Federal laws and regulations, including the Clean Air Act, 42 U.S.C. § 7401 *et seq*. (CAA), and regulations promulgated thereunder, including the federal standards set forth in 40 C.F.R. Part 62, Subpart GGG (Federal Plan), and the National Emission Standards for Hazardous Air Pollutants for Municipal Landfill Maximum Achievable Control Technology, set forth in 40 C.F.R. Part 63, Subpart AAAA (Landfill MACT), and the Solid Waste Disposal Act, 42 U.S.C. § 6901 *et seq*. (RCRA), and regulations promulgated thereunder, including federal municipal solid waste landfill operating, closure, and post-closure criteria set forth in 40 C.F.R. Part 258, and three EPA administrative orders issued pursuant to RCRA § 7003(a), 42 U.S.C. § 6973(a), and Territorial laws and regulations, including V.I. Code Title 19, Chapter 56 (Solid and Hazardous Waste Management), Title 12, Chapter 9 (Air Pollution Control), and Title 12, Chapter 21 (Virgin Islands Coastal Zone Management), and regulations promulgated thereunder, require the Government to construct and operate certain environmental control systems and otherwise comply with certain requirements during operation of each of its landfill sites, properly close the site (including placement of a final landfill cover) when the landfill (or portion thereof) stops accepting waste, and perform certain post-closure maintenance and monitoring functions at the site for 30 years following closure. Compliance costs during the operational phase will be paid prior to closure. Although closure and post-closure 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 $173.3 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2010, represents the cumulative amount reported 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 as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care as of September 30, 2010.

13. 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	66%	2020
Anguilla	100%	Closed
Susannaberg	100%	Closed

Actual cost to perform closure and post-closure 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 and other financing measures. However, if interest earnings and financing measures should be 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 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. However, the plants were completed by the end of 2007 and 2008, respectively. 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

13. Commitments and Contingencies (continued)

Primary Government (continued)

current on all of its outstanding obligations pursuant to the stipulation. In January 2004, the Government's Legislature authorized the creation of the V.I. Waste Management Authority (WMA) for the purpose of meeting environmental requirements of waste treatment in the U.S. Virgin Islands. On December 2004, the PFA issued revenue bonds amounting to $94.0 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 year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA.

As of September 2004, the PG 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 PG's position is that the amount allocated should be over the par value and additional paid-in capital upon a subsequent reorganization. The PG 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 PG's overall financial position as reported in the government-wide financial statements.

13. Commitments and Contingencies (continued)

Workers' Compensation Liability

The Government is exposed to risk of loss related to workers' compensation claims. The Government is self-insured for this risk. Self-insured risk liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend upon such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the claims liability amount in fiscal year 2010, as recorded in the Government Insurance Fund was as follows (expressed in thousands):

	2010	2009
Claims payable - October 1	**$ 15,495**	$ 16,150
Incurred claims and changes in estimates	**10,705**	5,348
Payments for claims and adjustments expenses	**(8,301)**	(6,003)
Claims payable - September 30	**$ 17,899**	$ 15,495

The Government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

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 de-obligated 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 of questioned costs to FEMA. During 1999, FEMA denied the second appeal and formally closed the disaster claim. WAPA has recorded a liability for $5.0 million related to the questioned costs. FEMA has not made a formal request for repayment of the funds.

13. Commitments and Contingencies (continued)

Component Units (continued)

In September 2005, WAPA electric facilities were damaged by Tropical Storm Jeanne. Damages amounted to $1.3 million, and WAPA filed a claim for $438 thousand with FEMA which is reported as a receivable as of June 30, 2010.

In October 2008, WAPA electric facilities on the island of St. Croix were damaged by Hurricane Omar. WAPA has expended $2.7 million for storm cleanup and system restoration as of June 2010. The territory was declared a federal disaster after the hurricane and is eligible for reimbursement of 75% or 80% of what was expended according to the category of the damage. The Authority has recorded a receivable from FEMA through the Office of Management and Budget – Public Assistance (OMB-PA) amounting to approximately $2.3 million.

Five former employees have individually filed suits against the VIHA for wrongful discharge over the period 1997 through 2006. 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.

In 2002, the Federal Aviation Administration (FAA) conducted an on-site wildlife evaluation of the Anguilla 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 now under the jurisdiction of the WMA. VIPA negotiated a remediation plan with FAA to close the landfill by December 2009, and subsequently WMA received an extension on the closure date to January 31, 2012.

In connection with the purchase of lands adjacent to the St. Croix airport, VIPA was awarded federal financial assistance in 2002 amounting to $8.0 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.

13. Commitments and Contingencies (continued)

Component Units (continued)

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.

14. 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 upon the completion of 6 years of credited service as a member of the Legislature.

Funding Policy

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 board of trustees of GERS may set cost-of-living increases for annuitants and pensioners and determine when the annuity should be paid on the basis of the most recent actuarial valuation and the Consumer Price Index.

14. Retirement Systems (continued)

Funding Policy (continued)

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, Virgin Islands 00802.

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.

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, 2006, indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the pension trust fund on an actuarial basis, as required by law.

The Government's required contribution for the year ended September 30, 2010 was 17.5% of the member's annual salary. Since April 1, 1991, required member contributions are 8% of annual salary for regular employees, 9% for senators, 11% for judges, and 10% for safety (hazardous employees) and eligible employees under Act 5226. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, legislation was passed that provided for annual interest on refunded contributions of 2% annually. The Government's contractually required contributions, actual contributions made, and percentage contributed to the plan for the years ended September 30, 2010, 2009, and 2008 were as follows (expressed in thousands):

	Annual Pension Cost (APC)	Employer Contribution	Percentage of APC Contributed
2008	$ 75,871	$ 75,871	100.00%
2009	$ 80,177	$ 80,177	100.00%
2010	$ 77,005	$ 77,005	100.00%

14. Retirement Systems (continued)

Funding Policy (continued)

The comparability of trend information, shown as RSI, is affected by changes in actuarial assumptions, benefit provision, actuarial funding methods, accounting policies and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligations as a factor.

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	September 30,2006
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed group
Remaining amortization period	20 years
Asset valuation method	Actuarial value, but not less than 80% nor greater than 120% of market
Actuarial assumptions:	
Investment rate of return	8% per year compounded annually
Projected salary increases	5.5% per year compounded annually, attributable to inflation
Cost-of-living adjustments	Retirement benefits increased by 1.5% of the original amount each year after age 0. Disability benefits are also increased by 1%.

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 3 years to their age for this computation. Members with 30 years of service or who can retire without penalty under the V.I. Code shall have their average compensation increased by 4 percentage points.

14. 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 four percent 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 due to GERS was $26.9 million as of September 30, 2009, of which $26.8 million had been remitted to GERS.

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 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) and GERS. The 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, 2010, 249 faculty members and other employees were TIAA-CREF participants. The number of active participants from the University participating in GERS as of September 30, 2010 was 249. Total contributions made by the University to TIAA-CREF and GERS participant accounts amounted to $2.2 million and $1.5 million, respectively.

Postemployment Benefits

In addition to the pension benefits described in Note 13, the Government provides other postemployment benefits (OPEB) of healthcare, prescription, dental and life insurance coverage. These benefits are provided in accordance with Title 3, Chapter 25, Subchapter VIII of the VI Code as part of a cost-sharing, multiple employer defined benefit OPEB plan, in which all component units of the PG participate and contribute. All employees who retire from government service 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, are eligible for these benefits.

14. Retirement Systems (continued)

Postemployment Benefits (continued)

As of September 30, 2010, approximately 10,751 active employees, 5,915 service retirees, 1,581 spouses of service retirees covered for medical and dental benefits, 104 disability retirees and 158 deferred vested (i.e., non-retired employees who have already terminated employment with the PG, but who are eligible for medical and life insurance benefits when they subsequently reach the qualifying age) meet the eligibility requirements of OPEB.

Healthcare, prescription and dental insurance is provided through negotiated contracts with private insurance companies. Participants in the plan may elect coverage for their spouses and dependent children. Participants are required to contribute 35% of medical, prescription and dental premiums. Retirees of UVI that participate in the 403(b) retirement plan may obtain coverage on a fully contributory basis. Life insurance is offered to retirees on a fully contributory basis.

The contribution requirements of plan members and the PG are legislated within the Virgin Islands Code, and may be amended, by the Virgin Islands Legislature. The plan is a non-funded pay-as-you-go plan, and expenditures are paid as they become due. For the year ended September 30, 2010, the Legislature budgeted, and paid, $19.6 million for retiree health insurance payments. Other component unit participants paid $17.2 million for the year ended September 30, 2010.

The PG's postemployment benefit cost is calculated on the annual required contribution of the PG, an amount actuarially determined. The first actuarial valuation was prepared as of October 1, 2009, in accordance with provisions of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This standard was implemented prospectively. Prior to the implementation of GASB Statement 45, the PG did not report an OPEB obligation. In future years, the actuarial valuation will be prepared bi-annually. For the fiscal year ended September 30, 2010, a roll-forward of the initial actuarial report was prepared.

The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, and amortize any unfunded actuarial liabilities over a period not to exceed an open 30-year period.

14. Retirement Systems (continued)

Postemployment Benefits (continued)

The following table shows the components of the PG's annual postemployment benefits cost for the fiscal year ended September 30, 2010, and the changes in the net estimated obligation for future payments of benefits:

Annual OPEB Cost and Net Postemployment Benefit Obligation
In thousands

ARC	$	85,921
Interest on the net OPEB obligation		3,757
Adjustment to the ARC		(3,732)
Annual OPEB cost (expense)		85,946
Employer contribution		(36,859)
Change in the net OPEB obligation	$	49,087
Net OPEB obligation- beginning of year	$	93,915
Change in the net OPEB obligation		49,087
Net OPEB obligation- end of year	$	143,002

The following table shows the Government's funded status of the OPEB:

Actuarial Valuation Date	October 1, 2009
Actuarial Accrued Liability (AAL)	$1,069,562
Unfunded AAL	$1,069,562
Funded Ration	0%

14. Retirement Systems (continued)

Postemployment Benefits (continued)

The Government's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and Net OPEB Obligation on a funded and unfunded basis are as follows:

	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2008	$ 78,185	40.36%	$ 46,629
2009	$ 82,004	42.34%	$ 93,915
2010	$ 85,946	42.89%	$ 143,002

The PG's obligation to provide health insurance to retirees is an unfunded plan. The actuarial valuation of the amount required to fund the plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Estimated annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the PG and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the actuarial valuation dated October 1, 2009, liabilities at October 1, 2010 were rolled back to October 1, 2009, and actual benefit payments were used for the fiscal years ending September 30, 2010 and 2011.

Covered health care and dental care expenses were assumed to increase in future years with an initial increase of 10.0% for medical and 7.5% for dental and an ultimate rate of 5.0% for both medical and dental care expenses.

14. Retirement Systems (continued)

Postemployment Benefits (continued)

The entry age normal actuarial cost method with costs on a level percentage of payroll basis was used to determine the annual required cost of OPEB benefits to retirees. Amortization is over an open 30-year period as a level percentage of payroll. Payroll growth is assumed to be 3% per year for purposes of amortization.

This method is consistent with the cost method used by GERS and typically produces the most level annual required contribution each subsequent year as a percentage of payroll. The normal cost was rolled back using the ultimate trend rate. A discount rate of 4.0% per annum was used, compounded annually. The valuation assumed that the annual unit cost per covered individual (i.e., retiree or spouse) for medical, prescription drugs and dental care for fiscal year 2010 was $6,155, $1,401 and $184 for retirees under age 65; and $1,591, $1,885 and $184 for retirees over age 65. The normal cost reflects the average age of the covered population and is based on claims experience for fiscal years 2008 and 2009, with a two-thirds weighting applied to the more recent year.

Combined experience and a combined cost were used for the pre-65 and post-65 populations. A composite cost was determined for retirees and spouses by combining their claim experience. Dependent children claims were included in developing the composite retiree and spouse cost. Costs were trended forward to fiscal year 2010 and adjusted to reflect the fiscal 2010 plan design and the anticipated lag in claim payment.

15. Liquidity

Governmental Activities

At September 30, 2010, the Government reported an unrestricted net deficit in governmental activities amounting to $1.4 billion. The net deficit resulted from: 1) the 2008 financial markets collapse and subsequent recession resulting in a reduction in income tax revenue and increase in unemployment, 2) the delay in the issuance of the 2007, 2008 and 2009 property taxes due to a class action lawsuit, and 3) the negative effect of Internal Revenue Service regulations redefining the requirements for residency, and sourcing of income, for the Territory. The revised Internal Revenue Service regulations negatively impacted economic growth in the Territory and reduced the participants in the Government's economic development programs. Following is a summary of the Government's unrestricted net deficit for governmental activities for fiscal years 2006 through 2010:

Governmental Activities Unrestricted Net Deficit
(In thousands, as restated)

Fiscal Year	Governmental Unrestricted Net Deficit	Decrease (Increase)
2006	$ (306,467)	$ 317,044
2007	(335,924)	(29,457)
2008	(513,201)	(177,277)
2009	(1,110,871)	(597,670)
2010	(1,408,601)	(297,730)

15. Liquidity (continued)

Governmental Activities (continued)

The Government has initiated specific actions to improve its liquidity and future cash flows. The Government established the Office of Economic Opportunity to pursue grants through the American Recovery and Reinvestment Act of 2009, to generate jobs, to promote energy efficient appliances and automobiles, and to improve infrastructure. The Government has successfully attracted a rum producer (Captain Morgan) and retained an existing rum producer (Cruzan Rum) within the Territory. The Government has imposed budgetary restraints, including incentives for early retirement of government workers, salary reductions, personnel reductions and budgetary cut-backs for the entire government. The Government has also legislated increases in local taxes such as the gross receipts taxes and hotel taxes. The Government has met certain District Court requirements in connection with a taxpayer class-action lawsuit, allowing the release of 2007 and 2008 property tax assessments in fiscal year 2011.

General Fund

At September 30, 2010, the Government reported an unreserved fund deficit in the General Fund of $155.9 million. This deficit represents an increase in fund balance of $93.4 million from the 2009 fiscal year, mainly due to an increase in tax revenue and receipt of ARRA grants. Following is a summary of the General Fund's unreserved fund balance for fiscal years 2006 through 2010:

General Fund Unreserved Fund Balance (Deficit)
(In thousands)

Fiscal Year	General Fund - Unreserved Fund Balance (Deficit)	Increase (Decrease)
2006	$ 107,769	$ (22,903)
2007	171,352	63,583
2008	100,188	(71,164)
2009	(62,482)	(162,670)
2010	(155,865)	(93,383)

16. Fund and Net Assets Deficit

The following non-major funds have a fund or net assets deficit as of September 30, 2010 (in thousands):

Governmental Funds		Proprietary Funds	
Employment Security	$ (255)	Bureau Of Motor Vehciles	$ (2,688)
Rural5 Library Extension	(585)	Vi Housing Finance Authority	(3,000)
Fish and Game Non-Lapsing	(183)	Health Revolving	(76,459)
Federally Aided Education Program	(15,393)	Emergency Housing	(492)
Special Federal Grant To Education	(659)	Housing Construction Revolving	(1,467)
Air & Water Pollution Central	(5,650)	Housing Construction Revolving	(1,537)
Vi Planning Board Projects	(3,007)	Frederiksted Small Business	(47)
Highway Safety	(3,938)	**Proprietary Fund Net Asset Deficits**	**$ (85,690)**
Ving Fed/State Agreement	(3,848)		
Vi Energy Office	(2,419)		
Federal Programs/Dept Construction	(2,707)		
Anti-Litter And Beautification	(46,817)		
Interest Revenue	(2,780)		
Pwd Fed Contributions Capital	(7,557)		
Federal Aided	(196)		
Commission On Aging	(22)		
Land Bank	(7,262)		
Sewer Waste Water Fund	(11,977)		
Air Pollution Cont Agency	(278)		
Indirect Cost	(1,853)		
Indirect Cost Non-Lapsing	(2,873)		
JTPA of 1983-1984	(8,773)		
Financial Services Fund	(7,239)		
Technical Assist Grt Capital	(64)		
V.I. Insurance Guaranty Non-Lapsing	(1,301)		
Union Arbitration Award	(28,352)		
Crisis Intervention Fund	(227)		
Law Revision Commission	(3)		

16. Fund and Net Assets Deficit (continued)

Governmental Funds	
Health Information	(18)
State Fiscal Stabilization	(6)
Drug Education Training Program	(123)
Federal Health Program	(525)
Food Stamp Welfare	(2,153)
Elementary/Secondary Education	(19)
Law Library Non-Lapsing	(184)
Civil Defense Protection	(1,386)
Boating Safety	(301)
V.I. Law Enforcement	(4,495)
V.I. Law Enforcement Non-Lapsing	(293)
Forensic Science	(66)
Vocational Rehabilitation	(1,478)
V.I. Educational Initiative Fd/Non-Lapsing	(896)
Hurricane Hugo Insurance Claims	(5,711)
V.I. Army National Guard	(2,266)
Emergency Drought Relief	(179)
Outdoor Recreation Program	(40)
WAPA Water Credits	(1,000)
Pharmaceutical Insurance Non-Lapsing	(19,830)
NSF Forfeiture	(4)
SBDA Mangement Technical Assistance	(8)
Juvenile Detention Center	(19)
Road Fund	(2,814)
Road Fund Non-Lapsing	(3,516)
Internal Revenue Matching	(987)
Internal Revenue Matching	(288,715)
Internal Revenue Matching Non-Lapsing	(34,091)
Section 12 Bond Proceeds	(32,227)
Major Repair And Improvement	(58)

16. Fund and Net Assets Deficit (continued)

Governmental Funds	
Water & Electric System Project	(1,698)
Caribbean Basin Initiative	(58,082)
Gr Bond Proceeds	(4,573)
Saint John Capital Improvement	(19,801)
Disaster Relief Fund	(519)
St Croix Capital Improvement	(3,124)
District Portable Water Fund	(67)
Federal Grants All Except Doe	(305)
Paternity & Child Support	(11,124)
Central Warehouse	(170)
Transportation Revolving	(985)
Data Processing Revolving	(215)
Public Transit	(9,697)
Home/Aged Revolving Non-Lapsing	(365)
Tourism Ad Revolving	(9,250)
Water Purchases Revolving Fund	(77)
Asset Recovery Fund	(798)
Transportation Trust Fund Non-Lapsing	(39,629)
Industrial Development	(1,682)
Vi Waste Water Corr Act Non-Lapsing	(3,226)
Total Fund Deficit	**$(735,017)**

17. Restatements of Net Assets

Component Units

Beginning net assets of three discretely presented component units were restated to correct material errors identified in prior years as follows (expressed in thousands):

	Beginning Net Assets		
Component Unit	As Previously Reported	Adjustments	As Restated
Virgin Islands Port Authority	$ 240,560	$ 1,560	$ 242,120
Economic Development Authority	2,724	11,864	14,588
Waste Management Authority	9,046	561	9,607
Other component units	413,753	–	413,753
Net Assets	$ 666,083	$ 13,985	$ 680,068

18. Subsequent Events

Primary Government

On October 9, 2010, the PFA authorized a $45.0 million letter of credit facility with Banco Popular de Puerto Rico, to fund the Insurance Guaranty Fund reserve account, which previously had consisted of certificates of deposit. The released certificates of deposit were subsequently utilized on October 14, 2010 for the payment of $36.5 million in retroactive wages and $8.5 million in related payroll costs.

On November 4, 2010, PFA entered into the Subordinated Lien Revenue Bond Anticipation Notes (the Series 2010A Notes), which modified and amended the Series 2009B Notes, extending the maturity date to October 1, 2013, and a maximum amount of $131.4 million, with $78.8 million from the Agent Lender and $52.6 from the Syndicate Lender. The lenders transferred the balance of $6.4 million from the 2009B Notes to the Series 2010A Notes. As of September 30, 2011, PFA had drawn the maximum amount of $131.4 million.

18. Subsequent Events (continued)

Primary Government (continued)

On January 20, 2011, a Third Circuit Court of Appeals vacated a decree issued in June 2009, which enjoined the Government from collecting property taxes at the 2008 assessment rate. The Court's decision is effective for tax year 2010. Property tax assessments for 2007, 2008, and 2009 were issued in February 2011, July 2011, and February 2012, respectively, at the 1998 assessment rates. Property tax assessments for 2010 were issued in June 2012 at the 2008 assessment value.

On April 29, 2011, PFA entered into the Subordinated Lien Revenue Bond Anticipation Notes, (the Series 2011A Notes) with Banco Popular de Puerto Rico, to purchase $32.2 million in Subordinated Revenue Bond Anticipation Notes. The Notes were issued to finance the costs of development, purchase of equipment and construction of broadband technology and infrastructure in the U.S. Virgin Islands. The Series 2011A Notes have an interest rate of 4.75% and mature on April 12, 2012. If the Series 2011A Notes are not defeased through long-term financing, the PG may convert the Notes to term notes.

On June 9, 2011, the United States Department of Justice (USDOJ) filed a motion for the appointment of a receiver to manage and operate the Golden Grove Adult Correctional Facility (the Facility) in St. Croix. The case was first brought against the PG in 1986 when the USDOJ alleged unconstitutional conditions at the prison based on the Civil Rights Institutionalized Persons Act. The PG opposed the appointment of a receiver and filed a motion with the court to validate the motion. On September 4, 2012, the USDOJ and the PG reached a proposed agreement that would settle the legal battle for control of the Facility. The settlement agreement would allow the PG to continue to run the Facility, if it complies with USDOJ requirement to hire an independent monitor to oversee implementation of court orders that would bring prison conditions up to constitutional standards.

On June 30, 2011, the Virgin Islands Office of Economic Opportunity (OEO), an agency designated to coordinate and manage American Recovery and Reinvestment (ARRA) grants for the Government, reported that the Government was awarded over $175.0 million in formula funds (the majority of which funded projects for the Office of the Governor, the V.I. Energy Office, the Department of Public Works, and Law Enforcement Planning Commission) and submitted over $130.0 million in competitive ARRA grant applications.

18. Subsequent Events (continued)

Primary Government (continued)

On July 5, 2011, the Legislature passed the Virgin Islands Economic Stability Act of 2011. The Act provides an incentive payment of $10,000 to any member of GERS with thirty or more years of credited service, who elects to retire between June 30, 2011 and September 30, 2011. The Act also provides that any member of GERS, with thirty or more years of service, that does not elect to retire, shall pay an additional 3 percent GERS member contribution (based on gross salary) effective October 1, 2011. The Virgin Islands Economic Stability Act also mandates an 8 percent reduction in the salaries of all employees in the executive and legislative branches of the PG, and an 8 percent reduction in the salaries of all employees of autonomous and semi-autonomous agencies that receive any portion of their funding from the general fund. The 8 percent reduction is effective for the two year period from July 4, 2011 until July 3, 2013. The Act also required the judiciary branch to electively reduce salaries by a comparable amount, or reduce its operating budget in an alternate way to achieve the objective of the Act. The Act establishes a cap of $26,000 below which an employee salary may not be reduced. Eligible government employees that elect to retire on or before July 3, 2013, are permitted to have their retirement annuity calculated at the pre-8 percent reduction amount.

On November 1, 2011, PFA entered into a Property Tax Revenue Anticipation Note Loan Agreement (the Retirement Incentive Program Notes). Under the terms of the Loan Agreement, a local bank will loan PFA $13 million to fund: (i) payments made to employees who elect to retire under the Virgin Islands Economic Stability Act and receive the incentive payment of $10,000, (ii) expenses incurred by the Office of the Lieutenant Governor related to processing, issuing and collecting property tax bills, and (iii) loan issuance costs. The Retirement Incentive Program Notes have a term of five years, with interest based on the current rate of a five-year US Treasury Note, at the time of closing, plus 400 basis points. After the five year term expires, the Retirement Incentive Program Notes will convert to a term loan not to exceed two years.

On December 15, 2011, GERS restructured its $15 million loan agreement with Carambola Northwest, LLC, reducing the interest on the investment from 10.25 percent to 6.3 percent. Carambola had defaulted on principal payments in May 2011 and had requested a restructuring of the terms of the agreement.

18. Subsequent Events (continued)

Primary Government (continued)

On January 18, 2012, HOVENSA, LLC, an oil refinery and major employer on the island of St. Croix, announced that it will cease operations in February 2012, due to significant operating losses. The refinery employed 1,200 people and had approximately 960 contractors. The company proposed a conversion of the facility to an oil storage terminal employing approximately 100 people, including contractors. On August 2012, the PG has requested HOVENSA to reopen the refinery using more fuel efficient technology, either under current ownership or new ownership.

On January 25, 2012, HOVENSA, LLC published an offer to repurchased the outstanding tax exempt private activity bonds, issued through PFA, amounting to $355.7 million, at a purchase price of $1,000 per $1,000 in aggregate principal amount plus accrued but unpaid interest. The offer was accepted by the bond holders before the expiration date of February 17, 2012.

On September 1, 2012, PFA issued the 2012 Series A Working Capital Bonds (2012 Series A Bonds), the proceeds of which amounted to $142.6 million. The Government has pledged matching fund excise tax revenues for the timely payment of the principal and interest on the 2012 Series A Bonds. The 2012 Series A Bonds bear interest at 4.00% to 5.00% and mature from 2022 to 2032. The proceeds of the bonds were issued to: (i) provide a loan to the PG to be used for working capital required to finance certain operating expenses and other PG obligations; (ii) to fund certain debt service reserve accounts of the 2012 Series A Bonds, and (iii) to pay certain costs of issuing the Series 2012 Series A Bonds. The 2012 Series A Bonds maturing on or after October 1, 2023 are subject to optional redemption on or after October 1, 2022. The Series 2012 Series A Bonds maturing on October 1, 2022 are subject to mandatory sinking fund redemptions beginning on October 1, 2014. The PG has covenanted, commencing October 1, 2012, to annually set aside 4% of the matching fund revenues transferred to the PG pursuant to the Cruzan and Diageo Agreements and Indentures, and to apply that amount first to the outstanding principal of the 2012 Series A Bonds, if any, and next, for the early optional redemption of outstanding bonds issued for working capital purposes, including the 2012 Series A Bonds.

On November 9, 2012, PFA issued Series 2012A and Series 2012B Revenue Refunding Bonds amounting to $228.8 million, to pay working capital obligations amounting to $197.1 million, and to refinance broadband project obligations amounting to $31.7 million.

18. Subsequent Events (continued)

Primary Government (continued)

On March 1, 2012, the Internal Revenue Service (IRS) notified PFA that it was conducting a random audit in connection with the $219.5 million Virgin Islands Public Finance Authority Revenue Bonds (Gross Receipts Taxes Loan Revenue Bonds), Series 2006, issued on September 28, 2006 (the 2006 Series Bonds). A portion of the 2006 Bonds partially refunded the Series 1999A Bonds, which were issued as long-term working capital bonds to address the Government's cash flow needs. As of the date hereof, the audit is ongoing. The Authority is working with its counsel to address the audit.

Component Units

On October 9, 2010, PFA authorized a $45 million letter of credit facility with Banco Popular de Puerto Rico. The facility will be available to replace funds from the PG's Insurance Guaranty Fund used for retroactive wage payments in October 2010.

On October 31, 2010, WAPA concluded the storm clean-up and power restoration related to Hurricane Earl, which impacted the U.S. Virgin Islands in August 2010. The damage related to the storm was in excess of $2 million. WAPA has applied to FEMA for reimbursement.

On December 22, 2010, WAPA Electric System refinanced General Obligation Notes with First Bank Puerto Rico amounting to $40 million. The General Obligation Notes were issued in November 2008 with a three year term. Under the terms of the refinancing, the new loan will expire in approximately six years. Net proceeds of approximately $15.2 million will be used to replenish self-insurance funds and to pay outstanding invoices to the HOVENSA oil refinery.

On December 16, 2011, the Legislature passed Act 7327, which forgave all outstanding financial obligations owed to the primary Government by the Governor Roy L. Schneider Hospital and the Governor Juan F. Luis Hospital and Medical Center as of the date the Act was passed. At September 30, 2010, the primary Government reported net receivables of $6.4 million due from the two hospitals.

On April 29, 2011, PFA entered into a Subordinated Revenue Bond Anticipation Note Purchase Agreement with Banco Popular de Puerto Rico, to purchase $32,235,000 in Subordinated Revenue Bond Anticipation Notes (the Series 2011A Notes). The purpose of the Series 2011A Notes is to provide a loan to the PG (the Series 2011A Gross Receipts Loan Notes - Broadband Project). The PG will use the proceeds to (i) finance the eligible costs in connection with

18. Subsequent Events (continued)

Component Units (continued)

upgrading the Virgin Islands' broadband technology, including development and construction of the infrastructure and roadwork and acquisition of equipment, and (ii) paying certain costs of issuing the Series 2011A Notes. The Series 2011A Notes have a term of one year, maturing on April 29, 2012, with interest rates of 4.75% due quarterly. If long-term financing is not obtained before maturity, the PFA may convert the note to term notes, with principal and interest due monthly, at an interest rate of 6.25% and a maturity date of April 29, 2017.

On July 21, 2011, the WAPA Governing Board of the Authority approved a proposed strategy with terms and conditions to allow the Authority to negotiate and enter into an agreement with Virgin Islands Next Generation Network (viNGN) for the Broadband Expansion Project.

On September 30, 2011, the WAPA Governing Board held an emergency meeting to approve an extension of the $10 million working capital line of credit WAPA has with Banco Popular. In addition, the Board approved the extension of the $3 million fuel hedge line of credit with the bank until December 31, 2011.

On September 30, 2011, WAPA entered into a Memorandum of Agreement (MoA) with viNGN, Inc, a Virgin Islands Corporation and wholly owned subsidiary of the Virgin Islands Public Finance Authority (PFA), an autonomous instrumentality of the Government of the United States Virgin Islands.

The term of the MOA is twenty-five (25) years, following execution and upon expiration of the initial twenty-five years (25) be automatically renewed for two additional consecutive twenty-five (25) year terms unless either party provides a written notice of non-renewal to the other party not less than twelve (12) months but no sooner than twenty-four (24) months prior to the expiration of the original term or any additional term.

On July 2011, the Governing Board of WAPA approved a proposed strategy with terms and conditions to allow WAPA to negotiate and enter into an agreement with Virgin Islands Next Generation Network (viNGN) for the Broadband Expansion Project.

The total in-land match value was budgeted and confirmed at $15,247,966.

18. Subsequent Events (continued)

Component Units (continued)

In April 2012, WAPA issued $65.0 million in 2012A Electric System Revenue Refunding Bonds, $16,000,000, 2012B Electric System Subordinated Revenue Bonds, $19,000,000 and 2012C Electric System Subordinated Revenue Bonds $30,000,000. The proceeds of the Series 2012A Bonds were used to (1) refund the Authority's Electric System Revenue Refunding Bonds, Series 1998 and (2) pay certain costs of issuance of the Series 2012A Bonds. The proceeds of the Series 2012B Bonds were used to refinance a portion of WAPA's Electric System Term Loan, (1) make a deposit into the Subordinated Debt Service Reserve Fund sufficient to satisfy the Series 2012B Subordinated Debt Service Reserve Fund Requirement and (3) pay certain costs of issuance of the Series 2012B Bonds. The proceeds of the Series 2012C Bonds were used to (1) refinance all or a portion of the WAPA Electric System Working Capital Lines of Credit and Overdraft Credit Facility, (2) make a deposit into the Series 2012C Subordinated Debt Service Reserve Fund sufficient to satisfy the Subordinated Debt Service Reserve Fund Requirement, and (3) pay certain costs of issuance of the Series 2012C Bonds.

To ensure it meets the criteria to continue the application of ASC No. 980, WAPA filed an emergency rate increase with the PSC on June 28, 2012, seeking a $16.2 million increase in base rates. On July 6, 2012, the WAPA PSC issued order No. 28/2012 approving an increasing rate of $8.6 million, to become effective with bills rendered after August 1, 2012. WAPA's Governing Board further amended the fiscal year 2013 Operating Budget on September 5, 2012, which indicated that WAPA has determined that budgeted results for 2013 result in an increase to net assets (rates charged will recover costs). Should WAPA be unable to realize an increase in net assets in 2013, Management believes they will discontinue the application of ASC No. 980.

There are proposed changes to the Retirement system that could affect WAPA's employees going forward. The GERS is proposing increasing the Tier 1 regular employee and Tier 1 Class 3 hazardous duty employee contribution rate by 1 percent each year for three years beginning October 1, 2013. The Tiers are based on an employee's hire date relative to when the GERS Reform Act of 2005 went into effect; those before October 1, 2005, are Tier 1 and those hired after that date are Tier 2 employees.

ACT 7373 prohibits WAPA from back billing customers for the Water System or the Electric System except for faulty meters and billing errors after three months.

Required Supplementary Information

Required Supplementary Information (other than MD&A)

Government of the United States Virgin Islands

Schedule of Funding Progress

September 30, 2010

Employees Retirement System of the Government of the U.S. Virgin Islands

Actuarial valuation Date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
Pension Plan						
2008(*)	$1,530,604,789	$1,310,218,726	$2,840,823,515	53.88%	$433,549,406	302.21%
2009(**)	1,534,899,736	1,397,261,661	2,932,161,397	52.35%	458,154,309	304.98%
2010(***)	1,505,970,212	1,513,059,673	3,019,029,885	49.88%	440,026,457	343.86%

(*) Estimated based on the financial information provided as of September 30, 2007, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2008, matched that assumed by the actuarial assumptions.

(**) Estimated based on the financial information provided as of September 30, 2009, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2009, matched that assumed by the actuarial assumptions.

(***) Estimated based on the financial information provided as of September 30, 2010, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2010, matched that assumed by the actuarial assumptions.

Actuarial valuation -September 30, 2006 and thereafter:
Actuarial accrued liability determined under the entry age normal method.

Required Supplementary Information (other than MD&A)

Government of the United States Virgin Islands

Schedule of Funding Progress (continued)

Postemployment Benefits Other Than Pensions

Actuarial valuation Date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
<u>OPEB</u>						
2007	$ –	$976,455,000	$976,455,000	0.00%	N/A	N/A
2009	$ –	$1,069,562,000	$1,069,562,000	0.00%	$418,467,000	255.59%

Required Supplementary Information (other than MD&A)

Employees' Retirement System of the Government of U.S. Virgin Islands

Schedule of Employer Contributions

September 30, 2010

	Annual required contributions	Contributions made	Percentage contributed
Year ended September 30,			
2010*	$157,817,709	$77,004,630	48.79%
2009*	147,490,851	80,177,004	54.36%
2008*	138,488,871	75,871,146	54.79%
2007**	137,797,268	60,778,382	44.11%
2006**	161,059,471	65,061,430	49.64%
2005**	120,184,848	51,542,030	42.89%

* Estimated based on Fiscal Year 2006 actuarial valuation.
** Estimated based on Fiscal Year 2003 actuarial valuation.

Other Report

Ernst & Young LLP
1000 Scotiabank Plaza
273 Ponce de León Avenue
San Juan, PR 00917-1951
Tel: 787 759 8212
Fax: 787 753 0808
www.ey.com

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the 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, 2010, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated November 29, 2012. Our report was modified to include a reference to other auditors. In addition, the scope of our audit work was not sufficient to enable us to express, and we did not express, an opinion on the financial position, the changes in the financial position and cash flows, where applicable, of the business-type activities and aggregate remaining fund information as of and for the year ended September 30, 2010, because the basic financial statements do not include a liability for medical malpractice claims in the guaranty insurance fund (a non-major enterprise fund). 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 the aggregate remaining fund information may have been affected by this condition.

In addition, our auditors' report for the aggregate discretely presented component units and the governmental activities, based on our audit and the reports of other auditors, was qualified for the following:

- 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) capital assets of $12.9 million in the financial statements of VIPTS, (2) assets of $12.5 million in the financial statements of VIHFA, (3) amounts due to the general fund of $4.5 million in the financial statements of the V.I. Lottery, (4) capital assets, grant revenue and expenditures of $6.1 million in the financial statements of WMA, and (5) investments in a limited partnership valued at $48.7 million in the GERS financial statements, were fairly stated, as described in paragraphs four through eight of the Report of Independent Auditors.

- The effects of the adjustments as might have been determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether the accrued compensated absences liability, the landfill closure and post-closure liability, and the retroactive union arbitration liability in the governmental activities were fairly stated, as described in paragraph nine of the Report of Independent Auditors.

Except as described above, we conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Virgin Islands Public Finance Authority (PFA), the West Indian Company (WICO), the Tobacco Settlement Financing Corporation (TSFC), Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Lottery (V.I. Lottery), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), Employees' Retirement System of the Government of the Virgin Islands (GERS), Waste Management Authority (WMA), and the Virgin Islands Housing Finance Authority (VIHFA), as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of PFA, WICO, Juan Luis Hospital and Medical Center, and GERS were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

Management of the Government is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered the Government's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A *material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider findings 10-01 through 10-08 to be material weaknesses.

Financial Statements Findings

Finding Number 10-01

Topic
Complete and accurate compilation of Schedule of Federal Expenditures Awards (SEFA) not provided timely.

Category
Internal Control / Compliance

Criteria
Pursuant Circular A-133 §___.310 Financial statements (b) Schedule of expenditures of Federal awards, the auditee shall prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall: (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a

cluster of programs. For Research and Development (R&D), total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services; (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included; (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available; (4) Include notes that describe the significant accounting policies used in preparing the schedule; (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program; (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule.

Condition
The detail of Federal expenditures provided by the Government did not properly identify individual Federal programs by Federal agency and clusters were not identified as defined in the OMB Circular A-133. In addition, the detail did not properly identify all programs that were American Recovery and Reinvestment Act (ARRA) funded.

The Government could not provide a reconciliation between the financial statements and the detail of Federal expenditures. After performing procedures to ascertain that all the Federal expenditures were included in the detail of federal expenditures provided, we identified that the report was understated by approximately $100.9 million. The SEFA was subsequently corrected to properly present all Federal expenditures for the period.

Questioned Costs
None.

Underlying Cause
The Government does not perform a reconciliation between Federal expenditures and the amount presented in the financial statements. Furthermore, personnel preparing the SEFA lack the knowledge regarding the federal requirements applicable to comply with Circular A-133. The use of more than one accounting system without an appropriate reconciliation results in differences.

Effect
The lack of appropriate procedures to ensure a complete compilation of the SEFA may cause material omissions of certain grant expenditures and also may cause delays in the audit process thus affecting future grant awards.

Recommendation
We recommend that the Government establishes policies and procedures to ensure that an accurate compilation of the SEFA is timely performed which includes all Federal awards expended during the period and properly identifies all ARRA funding and clusters. The SEFA should be provided to the external auditors with sufficient time to complete and issue the reporting package within the required period.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Finding Number 10-02

Topic
Data Collection Form and Single Audit reporting package not submitted on time.

Category
Internal Control / Compliance

Criteria
OMB Circular, Subpart C, Section .320 (a) General establishes that the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection. (b) Data Collection. (1) The auditee shall submit a data collection form which states whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. The form shall be approved by OMB, available from the Federal clearinghouse designated by OMB, and include data elements similar to those

presented in this paragraph. A senior level representative of the auditee (e.g., State controller, director of finance, chief executive officer, or chief financial officer) shall sign a statement to be included as part of the form certifying that: the auditee complied with the requirements of this part, the form was prepared in accordance with this part (and the instructions accompanying the form), and the information included in the form, in its entirety, are accurate and complete.

Condition
The Data Collection Form (DCF) and the Single Audit reporting package were not submitted within nine months after the end of the audit period.

Questioned Costs
None.

Underlying Cause
Information needed to complete the Single Audit was not available for examination within the required period.

Effects
The lack of appropriate procedures to ensure a complete reporting package and data collection form submission may cause delays in the audit process thus affecting future grant awards.

Recommendation
The Government should improve the procedures to ensure that the OMB Circular A-133 reporting package, including a complete and accurate schedule of expenditures of federal awards, is available for examination by the external auditors with sufficient time to complete and issue the reporting package within the required period.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Finding Number: 10-03

Primary Agencies/Departments Affected: DOF, IRB, LGO

Topic
The Government's lack of control over the income, excise, property and sales tax revenues processes led to significant audit adjustments being recorded in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Management's calculation of its tax revenues processes were not properly performed, resulting in significant audit adjustments. The following items resulted in audit adjustments which could have been prevented had Management implemented sound internal controls over its tax revenue recognition processes: (a) Management used an inappropriate date on the report used to calculate the income tax receivable causing an understatements of revenues, and (b) the calculation for property tax receivables was not properly supported and thus significant audit adjustments were proposed in order to correctly present these accounts.

Questioned Costs
Not applicable.

Underlying Cause
The Government's tax revenue process has grown in complexity. Additionally, supervisory review of the tax revenue process was not effective in all instances.

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements.

Recommendation
The Government's DOF should be more closely involved in the monitoring and review of the tax revenues processes. Management should consider performing these controls on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Finding Number: 10-04

Primary Agencies/Departments Affected: DOF, P&P, DPW, PFA

Topic
The Government's lack of control over its capital assets process led to significant adjustments in the financial statements.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
During our review of construction in progress accounts, we noted a significant number of projects that had items capitalized that should have been expensed during the current period.

Questioned Costs
Not applicable.

Underlying Cause
There is a lack of timely coordination between the Department of Finance, the Department of Property and Procurement, and the Department of Public Works.

Effect
The lack of supervisory review and coordination between the mentioned agencies led to significant audit adjustments in the Government's financial statements.

Recommendation
The Government should implement a formal procedure of quarterly reviews the status of construction in progress accounts and capital assets that may require impairment.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Finding Number: 10-05

Primary Agency/Department Affected: DOF

Topic
The Government's lack of control over the accounts payable reconciliations process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective accounts payable reconciliations process. Such process is essential in enabling companies to prevent and detect errors on a timely basis. This effective process helps ensure that all accounts payable reconciliations are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Lack of controls over the accounts payable ERP module and accounts payable reconciliations has made it difficult for the Government to establish its accounts payable subledger. Management establishes its accounts payable subledger through a manually intensive process. This resulted in audit significant adjustments in the Government's financial statements.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the accounts payable reconciliation process was not effective in all instances.

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements.

Recommendation
The Government's management should be more closely involved in the monitoring and review of the financial statement close process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition. In addition, Management should consider establishing procedures to reduce manual efforts by utilizing its ERP Accounts Payable module more effectively.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Finding Number: 10-06

Primary Agencies/Departments Affected: DOF, WMA

Topic
The Government's lack of control over its liability estimation processes for its landfill closure and post-closure liability and accrued compensated absences and retro pay liability has impaired our ability to conclude on their reasonableness. This has resulted in a modification of our audit opinion for the last two years. For the last two years, we encountered calculation errors that were significant in the retro pay liability calculation by person. The calculation errors have not been remediated and led to errors in the first installment payment to employees as well as to a report modification similar to the other liability.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective liability estimation/calculation process. Such process is essential in enabling organization to prevent and detect errors on a timely basis. This effective process helps ensure that all liability transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
The Government was not able to validate its estimate for its liability for landfill closure and post-closure, which resulted in a qualification of our opinion of governmental activities in the Government's basic financial statements.

In addition, the accrued compensated absences contained significant errors, which were not quantifiable by Management, and hence led to a qualification in our audit opinion of governmental activities.

Questioned Costs
Not applicable.

Underlying Cause
Supervisory review of the liability estimation processes was not in place. As a result, supporting documentation for estimates and calculation was not available or was not accurate to support Management's assertions.

Effect
The Government was not able to support its estimate/calculation for these liabilities, which resulted in a qualification of our audit opinion of governmental activities in the Government's basic financial statements.

Recommendation
The Government's management should establish controls over the review of this estimation and calculation processes and effective procedures to document their support of assumptions used in estimating the liability and to support the accurate calculation of liabilities. The revised estimations should be ready and supportable for the 2011 annual audit.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Finding Number: 10-07

Primary Agency/Department Affected: DOF

Topic
Performance and review of the bank reconciliation process has not been timely performed.

Category
Internal Control

Criteria
Performance and review of bank reconciliations should be performed within a reasonable period after month-end.

Condition Found
During our audit, we noted that bank reconciliations were not being performed and reviewed within a reasonable period. Most bank reconciliations were completed, reviewed and approved after 365 days.

Questioned Costs
Not applicable.

Underlying Cause
The Government has numerous bank accounts and its process for performing bank reconciliations is, for the most part, performed manually.

Effect
The lack of timely performance and review of bank reconciliations led to adjustments not identified on a timely basis. This could also result in a misstatement due to error or fraud. In addition, this has prevented the Government from performing monthly closing procedures, which is necessary for timely financial reporting.

Recommendation
The Government should automate its bank reconciliation process and consolidate unnecessary bank accounts. This will allow for the Government's personnel to be more efficient and effective in detecting errors and provide the Government more timely and accurate financial information.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Finding Number: 10-08

Primary Agency/Department Affected: DOF, DOH

Topic
The Government's lack of control over its liability estimation process for medical malpractice claims led to an error in the financial statements, which could not be quantified by management.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective liability estimation process. Such process is essential in enabling companies to prevent and detect errors on a timely basis. This effective process helps ensure that all liability estimation transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
The Government did not establish a liability for medical malpractice claims.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. An evaluation of the malpractice liability was not performed for fiscal year 2010.

Effect
The Government was not able to quantify this liability, which resulted in a disclaimer in the audit opinion of the business-type activities and aggregate remaining fund information.

Recommendation
The Government's management should establish controls over the review its claims data process which will allow them to provide the data necessary to their actuary for the estimation of this liability for fiscal year 2011.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Finding Number: 10-09

Primary Agency/Department Affected: DOF

Topic
The Government's lack of control over transactions with its component units led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Lack of review of classification and reporting of transactions with component units led to significant errors, some which related to prior periods, in amounts due to and from component units in the financial statements of the Government.

Questioned Costs
Not applicable.

Underlying Cause
The Government does not have an effective process to review the classification and reporting of transactions between component units and the Government.

Effect
This control deficiency led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements, some which related to prior periods.

Recommendation
The Government's management should be more closely involved in the monitoring and review of the transactions with its component units, in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition. A formal process should be established for a quarterly review by the Department of Finance of transactions and amounts due to component units. In addition, the Government should establish a procedure of obtaining a reporting package from all of its component units to confirm the classification and reporting of transactions with its component units. This reporting package will standardize and simplify the process of reviewing transactions with component units.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described as finding 10-02.

The Government's responses to the findings identified in our audit are described above. We did not audit the Government's responses and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Honorable Governor of the United States Virgin Islands, management, others within the entity, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

November 29, 2012

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

About Ernst & Young
Ernst & Young is a global leader in assurance, tax, transaction and advisory services. Worldwide, our 167,000 people are united by our shared values and an unwavering commitment to quality. We make a difference by helping our people, our clients and our wider communities achieve their potential.

For more information, please visit www.ey.com