Financial Statements and Other Financial Information

Virgin Islands Public Finance Authority
Year Ended September 30, 2011
With Report of Independent Auditors

Ernst & Young LLP

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Financial Statements and Other Financial Information

Year Ended September 30, 2011

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 Board of Directors
The Virgin Islands Public Finance Authority

We have audited the accompanying statement of net assets of The Virgin Islands Public Finance Authority (the "Authority"), a blended component unit of the Government of the United States (U.S.) Virgin Islands, as of September 30, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 Authority'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 Authority'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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Virgin Islands Public Finance Authority as of September 30, 2011, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2013, on our consideration of the Authority'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.

Ernst & Young

Management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

May 30, 2013

Management's Discussion and Analysis

Year Ended September 30, 2011

The Management and Board of Directors of the Virgin Islands Public Finance Authority (the "Authority") are pleased to present the following discussion and analysis of the Authority's financial performance for the fiscal year ended September 30, 2011.

Please read this information in conjunction with the Authority's financial statements, which begin on page 13.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Virgin Islands Public Finance Authority (the "Authority"), a blended component of the Government of the US Virgin Islands, was created by the Virgin Islands Act No. 5365 (the "Act"), "The Government Capital Improvement Act of 1988", for the purposes of aiding the Government of the Virgin Islands (the "Government") in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. The Authority engages in business-type activities, grant management, investment and debt service fund administration on behalf of the Government.

Under the Authority's investment and debt service fund administration, the Authority issues debt instruments (mainly bonds and notes) and loans the proceeds to the Government of the Virgin Islands under the same terms of the debt source. The proceeds from debt issuances are also managed by the Authority on behalf of the Government of the Virgin Islands. These management activities consist of investing the proceeds in permitted investments, managing the debt service reserves, making payments for capital projects for the benefit of the residents of the Virgin Islands and receiving pledged revenues for the timely payment of principal and interest. Since the Authority holds the bond proceeds, disbursements on behalf of the Government of the Virgin Islands are recorded as reductions in the amounts due to the Government of the Virgin Islands in the balance sheet and are presented in the statement of cash flows as payments on behalf of the Government of the Virgin Islands.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, Statement of Cash Flows and Notes to the Financial Statements presented on pages 18 through 70 provide information about the activities of the Authority as a whole.

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

FINANCIAL HIGHLIGHTS

Following is condensed financial information of the Authority for years 2011 and 2010:

(In thousands)	**2011**	**2010**
Condensed information from Statement of Net Assets		
Current assets	**$ 509,514**	$ 425,002
Non-current assets excluding capital assets	**1,845,803**	1,901,432
Capital assets (net of depreciation)	**52,831**	47,399
Total assets	**2,408,148**	2,373,833
Current liabilities	**137,089**	76,114
Long-term portion of bonds outstanding	**1,700,294**	1,746,890
Other liabilities	**521,216**	492,888
Total liabilities	**2,358,599**	2,315,892
Net assets:		
Invested in capital assets, net of debt	**23,625**	26,499
Restricted	**19,510**	16,120
Unrestricted	**6,414**	15,322
Total net assets	**$ 49,549**	$ 57,941
Condensed information from Statement of Revenue, Expenses and Changes in Net Assets		
Operating revenues	**$ 9,655**	$ 18,264
Operating expenses	**(17,622)**	(17,013)
Operating income (loss)	**(7,967)**	1,251
Non-operating income and other changes in net assets	**(424)**	64
Change in net assets	**$ (8,391)**	$ 1,315

Non-current assets, excluding capital assets, decreased by $56 million in 2011 due to capital outlays on behalf of the Government of the US Virgin Islands.

The capital asset increase of $5.4 million from 2010 to 2011 is mainly due to the build-out of the viNGN optical fiber network.

Long-term portion of bonds outstanding decreased by $47 million in 2011 mainly due to repayments of debt service principal of $24 million and interest of $23 million that were paid during fiscal year 2011.

The net assets of the Authority decreased by $8.4 million during fiscal year 2011. The decrease in 2011 is mainly due to a decrease in bond and investment management fees.

In 2011, operating revenues experienced a decrease of $8.6 million mainly due to a decrease in management fees received in connection with bond and notes issued.

Business Type Activities

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

Following is condensed financial information for WICO and King's Alley for the years ended 2011 and 2010:

	WICO		**King's Alley**	
(In thousands)	**2011**	**2010**	**2011**	**2010**
Operating revenues	**$ 8,735**	$ 8,187	**$ 647**	$ 614
Operating expenses	**(8,278)**	(8,451)	**(927)**	(1,111)
Operating income (loss)	**457**	264	**(280)**	(497)
Nonoperating revenues	**151**	699	**2**	2
Nonoperating expenses	**(2,211)**	(3,730)	**–**	–
Loss before interfund transfers	**(1,603)**	(3,295)	**(278)**	(495)
Interfund transfers	**–**	–	**–**	–
Change in net assets	**$ (1,603)**	$ (3,295)	**$ (278)**	$ (495)

WICO's operating revenues consist of agency fees charged to cruise lines and rental income. During fiscal year 2011, the increase in operating revenues is due to an increase in passenger arrivals**.**

King's Alley operating loss of $280 thousand in fiscal year 2011, is mainly due to depreciation of $498 thousand.

Over the last two years, The West Indian Company (WICO) operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and also by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Port Authority. As a consequence, WICO did not comply, as of September 30, 2011, and for the year then ended, with loan covenant requirements of minimum operating revenue thresholds. WICO requested and the Bank granted a waiver over the failure to comply with the minimum operating revenue for fiscal year 2011. The waiver was granted on January 28, 2013.

Grant Administration

The Office of Economic Opportunity, formed in June 2009, is a wholly owned subsidiary of the Authority responsible for oversight of the activities attributable to American Recovery and Reinvestment Act of 2009 (ARRA).

Following is condensed financial information for OEO for the years ended 2011 and 2010:

	Office of Economic Opportunity	
(In thousands)	**2011**	**2010**
Operating revenues	**$ –**	$ –
Operating expenses	**(4)**	(622)
Operating loss	**(4)**	(622)
Nonoperating revenues – Federal Grant Revenue	**734**	2,055
Nonoperating expenses	**–**	–
Income before interfund transfer, payments on behalf of the Government of the U.S. Virgin Islands and federal grants	**730**	1,433
Payments on behalf of Government of the U.S. Virgin Islands	**(16)**	(37)
Federal grant expenditures	**(887)**	(2,052)
Change in net assets	**$ (173)**	$ (656)

OEO's grant awards amounted to $734 thousand in the fiscal year 2011. Operating expenses were $4 thousand in 2011, they consisted of grant expenditures not covered by grant guidelines or made as part of award matching requirements.

Broadband Initiative - viNGN

The Virgin Islands Next Generation Network, Inc. (viNGN) was incorporated on October 8, 2010, and is owned by the Government of the US Virgin Islands through the Virgin Islands Public Finance Authority.

The main purpose of viNGN is to design, develop, engineer, construct and manage a middle mile wholesale fiber optic network in order to provide reliable high speed internet connections at affordable prices and equal terms to all retail internet service providers and public infrastructure stewards; to establish telework support centers; to establish public computer centers; to provide the internet infrastructure for expanded communication for public safety and health facilities; to provide the internet infrastructure to foster retention of jobs and businesses; to provide training to the public; to coordinate the deployment of fiber strands; and, to reinvest a part of the proceeds from such activities to sustain and support the continuation of the foregoing activities and other authorized purposes of viNGN.

Following is condensed financial information for viNGN for the years ended 2011.

(In thousands)	**viNGN 2011**
Operating revenues	**$ –**
Operating expenses	**(1,000)**
Operating loss	**(1,000)**
Non-operating revenues	**17**
Non-operating expenses	**–**
Loss	**(983)**
Change in net assets	**$ (983)**

During 2011, viNGN began operations and entered into several agreements with engineering and architectural firms, contractors, consultants' equipment suppliers and material suppliers to design and build the network.

Investment Administration

During the current year, the Authority (i) managed the assets of all its bond series, (ii) note series, and (iii) defeased bond series.

Investments under management for fiscal years 2011 and 2010, were as follows:

	Restricted Cash and Investments	
(In thousands)	**2011**	**2010**
Investments under management	**$ 435,811**	$ 500,201
Other restricted cash, cash equivalents and investments	**1,936**	1,917
	$ 437,747	$ 502,118

DEBT ADMINISTRATION

At year-end, the Authority had approximately $1.8 billion in bonds outstanding as follows:

	Bonds Outstanding 9/30/2010	*(In thousands)* New Issuance	Debt Payments	Bonds Outstanding 9/30/2011
2010 Series	$ 399,050	$ –	$ –	**$ 399,050**
2009 Series "Cruzan"	39,190	–	(550)	**38,640**
2009 Series "R&R"	458,840	–	(8,460)	**450,380**
2009 Series "Diageo"	250,000	–	–	**250,000**
2006 Series	215,965	–	(1,580)	**214,385**
2004 Series	78,860	–	(3,625)	**75,235**
2003 Series	252,455	–	(3,495)	**248,960**
1999 Series	87,695	–	(6,580)	**81,115**
1998 Series	–	–	–	**–**
Total	$ 1,782,055	$ –	$ (24,290)	**$ 1,757,765**

In July 2010, the Authority issued the 2010 Series A & B Bonds. The proceeds were loaned to the Government of the Virgin Islands to provide financing of various operating expenses and to refinance a portion of the outstanding Series 2009 B1 & B2 Notes, (see Note 6).

At September 30, 2011, defeased bonds outstanding from prior years amounted to $162.9 million (1999 Series) ($162.9 million in 2010), $100.7 million (1989 Series) ($111.3 million in 2010) and $100.3 million (1994 and 1992 Series) ($111.5 million in 2010) at year-end.

Loans outstanding were as follows:

	Loans Outstanding 9/30/2010	*(In thousands)* New Issuances	Debt Payments	Loans Outstanding 9/30/2011
2010 A BAN Broadband	$ –	$ 32,235	$ –	**$ 32,235**
2010 A1 & A2 BAN	–	131,400	–	**131,400**
2009 B1 & B2 BAN	6,400	–	(6,400)	–
2009A TIR BAN	10,032	4,000	–	**14,032**
2009 A Revenue				–
Loan Note	7,292	–	(1,473)	**5,819**
2008 VIPD Note	2,450		(2,450)	–
WICO	22,909	–	(651)	**22,258**
Total	$ 49,083	$ 167,635	$ (10,974)	**$ 205,744**

In April 2011, the Authority entered into Subordinate Lien Revenue Bond Anticipation Notes, Series 2011A, (Virgin Islands Gross Receipts Taxes Loan Notes). The purpose of the notes was to provide a loan to the Government of the Virgin Islands for the purposes of upgrading broadband technology, infrastructure and equipment.

In November 2010, the Authority issued the 2010 A1 & A2 Bond Anticipation Notes which modified and amended the 2009 B Notes. At September 30, 2011, the Authority had drawn $131.4 million under the notes.

In September 2009, the Authority issued the 2009 B1 & B2 Working Capital Bond Anticipation Notes creating credit facilities with two local banks. The purpose of the notes is to provide a loan to the Government of the Virgin Islands to finance certain operating expenses of the Government. The Authority made three draws during fiscal year 2010 amounting to $106.4 million in total, and then used the proceeds of the 2010 Series A & B bonds to repay a portion of the loan (see Note 8).

In September 2009, the Authority issued the 2009 Tax Increment Revenue Bond Anticipation Note to provide a loan to the Government of the Virgin Islands to finance the development of a shopping complex on the island of St. Croix. The Authority made one draw during fiscal year 2011 of $4 million and one draw during fiscal year 2010 of $4 million (see Note 8).

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

Tax Collections

Bonds and notes issued by the Authority are supported by pledged rum excise tax revenues and gross receipts tax revenues as more fully described in Note 6 and Note 8 of the accompanying financial statements. Rum excise taxes are Federal excise tax collections from rum which are returned to the Government of the Virgin Islands from the Federal Government. Rum production occurs at one private facility. Gross receipts tax revenues are a tax on gross professional services and sales. Debt service payments of principal and interest from these revenue sources for the past two years are as follows:

	Year Ending September 30	
(In thousands)	**2011**	**2010**
Excise rum tax	**$ 77,641**	$ 71,262
Gross receipts tax	**$ 48,339**	$ 50,345

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

Investment Performance and Agreements

The Authority investments include AAAm (S&P) and Aaa-mf (Moody's) rated money market funds and A- (S&P) and A2 (Moody's) rated commercial securities. Due to declining interest returns, the Authority entered into three debt service agreements with Morgan Stanley Capital Services, Inc., during fiscal year 2002. The agreement was amended in October 2009, and revised in April 2010, to redefine the bond series guaranteed as a result of the 1998 Bond debt refunding. The terms of the agreements provide a guaranteed return in exchange for the guaranty of Authority debt service reserves. The Authority received $1.6 million in fees upon entering into the agreements and a guaranteed average rate of return of 5% to 6% on investments subject to the agreements

Contacting the Authority

This financial report is designed to provide users with a general overview of the Authority's finances. If you have questions about this report or need additional financial information, contact the Authority:

Virgin Islands Public Finance Authority
32 &33 Kongens Gade, Government Hill
St. Thomas, US Virgin Islands 00802
(340) 714-1635

Financial Statements

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Net Assets

September 30, 2011

Assets	
Current assets:	
Cash and cash equivalents	$ 20,786,280
Restricted cash and cash equivalents	104,312,598
Restricted investments, at fair value	173,487,489
Receivables, net	305,697
Restricted loans receivable - Government of the U.S. Virgin Islands	209,918,522
Prepaid expenses and other assets	703,788
Total current assets	509,514,374
Noncurrent assets:	
Restricted investments, at fair value	159,947,134
Restricted loans receivable - Government of the U.S. Virgin Islands	1,684,022,554
Bond issuance costs	1,833,227
Capital assets, net of depreciation	52,830,973
Total noncurrent assets	1,898,633,888
Total assets	2,408,148,262

(Continued)

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Net Assets (continued)

September 30, 2011

Liabilities		
Current liabilities:		
Accrued expenses and other liabilities	$	8,381,052
Loans payable related to capital assets		501,026
Notes payable		33,788,522
Deferred revenue		1,576
Bonds payable		47,310,000
Interest payable		47,106,999
Total current liabilities		137,089,175
Noncurrent liabilities:		
Loans payable related to capital assets		21,756,451
Notes payable		149,697,554
Bonds payable (including a reduction of $10,161,362 in 2011, due to deferred amounts on defeased and refunded bonds)		1,700,293,638
Due to Government of the U.S. Virgin Islands - construction funds		175,608,878
Due to Government of the U.S. Virgin Islands - debt service funds		174,153,210
Total noncurrent liabilities		2,221,509,731
Total liabilities		2,358,598,906
Net assets		
Invested in capital assets, net of related debt		23,625,333
Restricted		19,509,593
Unrestricted		6,414,430
Total net assets	$	49,549,356

See accompanying notes.

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended December 31, 2011

Operating revenues:	
Charges for services	$ 9,382,235
Other operating revenues	272,270
Total operating revenues	9,654,505
Operating expenses:	
General and administrative	15,178,036
Depreciation	2,443,753
Total operating expenses	17,621,789
Operating loss	(7,967,284)
Nonoperating revenues (expenses):	
Interest income:	
Cash, cash equivalents and investments	6,097,939
Loans receivable	98,525,938
Budgetary allocation	3,500,000
Federal grants	833,631
Amortization of bond discount and issuance costs	(5,546,383)
Amortization of deferred amount	(924,531)
Bank commitment fees	(787,500)
Interest expense	(100,037,405)
Gain on sale of fixed assets	11,568
Impairment of capital assets	(262,211)
Contribution to the Government of the U.S. Virgin Islands	(700,000)
Total nonoperating income	711,046
Loss before payments on behalf of the Government of the U.S. Virgin Island and grants	(7,256,238)
Payments on behalf of the Government of the U.S. Virgin Islands	(247,577)
Federal grant expenditures	(887,449)
Changes in net assets	(8,391,264)
Total net assets at beginning of year	57,940,620
Total net assets at end of year	$ 49,549,356

See accompanying notes.

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Statements of Cash Flows

Year Ended December 31, 2011

Operating activities	
Cash received from customers	$ 9,747,749
Cash paid to suppliers and employees for services	(14,692,641)
Other cash receipts	10,574
Net cash used in operating activities	(4,934,318)
Investing activities	
Purchases of investments	(616,994,912)
Interest received on cash, cash equivalents and investments	5,373,328
Investment maturities and sales	705,607,990
Net cash provided by investing activities	93,986,406
Capital and related financing activities	
Proceeds from the sale of property and equipment	11,568
Acquisition of property and equipment	(5,951,707)
Interest payment on long-term debt related to capital assets	(1,511,467)
Principal payments on loans payable related to capital assets	(672,042)
Net cash used in capital and related financing activities	(8,123,648)
Noncapital financing activities	
Funds received for debt service	200,750,891
Contributions to Cruzan	(54,672,450)
Bank and other fees	(1,086,927)
Proceeds from issuance of bonds and notes payable	161,235,000
Budgetary allocation	3,500,000
Interest paid on bonds and notes payable	(90,399,480)
Federal grants	1,131,645
Payment of issuance costs	(1,444,315)
Transfer to (from) the Government of the U.S. Virgin Islands	(148,774,004)
Principal payments on bonds and notes payable	(25,762,911)
Payments on behalf of Government of the U.S. Virgin Islands	(115,756,911)
Federal grant expenditures	(437,300)
Net cash used in by noncapital financing activities	(71,716,762)
Net increase in cash, cash equivalents and restricted cash	9,211,678
Cash, cash equivalents and restricted cash at beginning of year	115,887,200
Cash, cash equivalents and restricted cash at end of year	$ 125,098,878

(Continued)

Statements of Cash Flows (continued)

Year Ended December 31, 2011

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (7,967,284)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Provision for doubtful accounts	202,654
Depreciation and amortization	2,443,753
Changes in operating assets and liabilities that increase (decrease) cash:	
Receivables	294,338
Accrued expenses and other liabilities	985,457
Prepaid expenses and other assets	(889,412)
Customer deposits	(3,824)
Total adjustments	3,032,966
Net cash used in operating activities	$ (4,934,318)
Supplemental information on noncash investing and noncapital financing activities	
Notes paid on behalf of the Authority by the Government of the U.S. Virgin Islands	$ 450,454

See accompanying notes.

1. Reporting Entity and Significant Accounting Policies

Reporting Entity

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

General Obligation Bonds

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

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies

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

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these estimates are adequate. Actual results could differ from those estimates.

Basis of Presentation and Accounting

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

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

The Authority accounts for refundings of debt under the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt by Proprietary Activities.* This Statement establishes standards of accounting and financial reporting for current and advance refundings resulting in defeasance of debt reported by proprietary activities. Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Basis of Presentation and Accounting (continued)

a future time (advance refunding) previously issued debt. This Statement requires for both current and advance refundings, that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount should be reported on the statement of condition (net assets) as an addition to or deduction from the new debt.

Basic Financial Statements

Standards for external financial reporting for state and local governments require that resources be classified for accounting and reporting purposes into net assets categories and to report the changes in net assets. Net assets represent the residual interest in the Company's assets after liabilities are deducted and consist of the following categories:

- *Invested in capital assets, net of related debt:* Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. The portion of debt attributed to the unspent debt proceeds is included in the same net asset component as the unspent proceeds.

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

- *Unrestricted:* Net assets that are not subject to externally imposed stipulations.

Statement of Cash Flows

The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Activities of the Authority

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

> *Operations:* Overall investment management and administrative activities of the Authority.
>
> *The West Indian Company:* Property management activities related to the management of the West Indian Company ("WICO") a wholly owned subsidiary consisting primarily of servicing cruise ships owned by established shipping lines.
>
> *King's Alley Management, Inc.:* Property management activities related to King's Alley Management, Inc., a wholly owned subsidiary, formed on July 22, 2001, consisting primarily of managing the King's Alley Hotel in Christiansted, St. Croix, and a shopping center in Frederiksted, St. Croix.
>
> *Office of Economic Opportunity:* Oversight of the activities attributable to the American Recovery and Reinvestment Act of 2009 (ARRA) formed on June 12, 2009.
>
> *Virgin Islands Next Generation Network (viNGN):* Operating entity in connection with the broadband expansion project formed on March 8, 2010, a wholly-owned subsidiary of the Authority. viNGN was incorporated on October 8, 2010, and its articles of incorporation were duly filed with the Office of the Lieutenant Governor of the U.S. Virgin Islands on October 12, 2010.

Cash and Cash Equivalents

Cash and cash equivalents of the Authority consist of demand accounts, certificates of deposits with maturities of three months or less when purchased, short-term U.S. Government and its agencies obligations maturing within three months and collateralized by U.S. Government obligations.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Cash and Cash Equivalents (continued)

By law, bank and trust companies designated as depository of public funds of the Government of the U.S. Virgin Islands and its instrumentalities are to maintain corporate surety bonds or pledge collateral satisfactory to the Commissioner of Finance of the U.S. Virgin Islands to secure all governmental funds deposited.

Receivables

Receivables are recorded at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The adequacy of the allowance for doubtful accounts is evaluated by management based upon past collection experience and customers' financial condition.

Investments

Under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for Most External Investments Pools*, the Authority reports investments at fair value in the statement of net assets and changes in the fair value in the statement of revenues, expenses and changes in net assets. Investments are restricted by various bond resolutions of the Authority and the Act, generally, to direct obligations of the U.S. Government, the U.S. Virgin Islands, or any state, territory, possession or Commonwealth of the United States, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The Authority has retained investment managers and investments are held in trust by a commercial bank on behalf of the Authority.

Under GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*, common deposits and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk require certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The disclosures required by this statement are included in Note 3.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Bonds Payable

Bonds payable managed by the Authority are as follows:

> *Series 2010 A and B Revenue Bonds:* The proceeds of the bonds were issued to (i) finance working capital requirements of certain operating expenses and other obligations of the Government, (ii) refinance a portion of the B1 and B2 Bond Anticipation Notes, (iii) establish debt service reserves, and (iv) finance costs of issuance of the 2010 A and B Bonds.
>
> *Series 2009 A Revenue Bonds (Cruzan):* The proceeds of the bonds were issued to (i) finance the costs of the development, acquisition, construction and installation of a wastewater treatment facility, (ii) fund certain preliminary costs of the alteration, upgrade, expansion and renovation of the Cruzan distillery on St. Croix., (iii) establish debt service reserves, and (iv) finance costs of issuance of the 2009A Bonds.
>
> *Series 2009 A1, A2, B and C Revenue and Refunding Bonds:* The proceeds of the bonds were issued to (i) finance various capital projects of the Government , (ii) establish debt service reserves, (iii) finance costs of issuance of the Series Bonds, and (iv) refund a portion of the Authority's Series 1998 Revenue Bonds.
>
> *Series 2009 A Revenue Bonds (Diageo):* The proceeds of the bonds were issued to: (i) make a loan to the Government of the Virgin Islands to provide a grant to Diageo USVI Inc. to finance the costs of the acquisition, design, development, construction and equipping of a rum production and maturation warehouse facility to be located on St. Croix, (ii) pay in full the principal and interest due on the Subordinated Revenue Bond Anticipation Notes, Series 2009 A, (iii) pay capitalized interest on the Series 2009 A Bonds, (iv) fund the Series 2009 A Senior Lien Debt Service Reserve Subaccount, and (v) pay the costs of issuing the Series 2009 A Bonds.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Bonds Payable (continued)

Series 2006 Revenue Bonds: The proceeds of the bonds were issued to: (i) refund a portion of the Authority's Revenue Bonds, Series 1999 A, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund the debt service account, (v) pay certain costs of issuing the Series 2006 Bonds and, (vi) fund a net payment reserve account for a new swap agreement.

Series 2004 A Revenue Bonds: 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 newly created 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.

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

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

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Payments on Behalf of the Government of the U.S. Virgin Islands

Payments on behalf of the Government of the U.S. Virgin Islands include distributions from excess revenues of tax collections (pledged funds), transfer of proceeds of the 2010 A1 & A2 and 2009 B1 & B2 Bond Anticipation Notes, and payments for capital projects.

During the fiscal year ended September 30, 2011, capital expenditures of $25.5 million, $4.0 million, $2.7 million and $4.7 million were disbursed from the restricted investments related to the Series 2009 A1 & A2, Series 2006, Series 2004 and Series 2003 Bonds, respectively. Also, project expenditures of $2.9 million, $4.2 million and $507 thousand were disbursed from the restricted investments related to the 2011A Bond Anticipation Note, 2009 TIF Bond Anticipation Note, and 2009A 911 Note, respectively. The disbursements are reported as a reduction of Restricted Assets held for the Government of the U.S. Virgin Islands in the statement of net assets and as payments on behalf of the Government of the U.S. Virgin Islands in the statement of cash flows.

During the fiscal year ended September 30, 2011, there was $232 thousand and $16 thousand of capital expenditures disbursed from unrestricted cash and restricted investments related to the 1992 Revenue bonds and Grant Administration funds, respectively. The disbursements are recorded as payments on behalf of the Government of the U.S. Virgin Islands in the statement of revenues, expenses and changes in net assets.

During the fiscal year ended September 30, 2011, the Office of Economic Opportunity made reimbursable expenditures of $3.2 million, from Federal awards (see Note 9).

During the fiscal year ended September 30, 2011, the West Indian Company Inc. made reimbursable expenditures of $125 thousand from Federal awards (see Note 9).

During fiscal year 2011, the Authority charged the Tobacco Settlement Financing Corporation $75 thousand for investment and management services.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Taxes

The Authority is a tax-exempt entity created by statute. The Authority shall not be required to pay any taxes or assessments on any of the property acquired or to be acquired by it, or on any of its operations or activities, or on any income derived from any of its operations or activities. However, prior to June 2003, WICO was required, under a specific bill, to contribute the greater of ten percent of net revenues, or $500,000 to the General Fund of the Government of the U.S. Virgin Islands. In June 2003, the Legislature approved and amended the annual payment in lieu of taxes to the greater of ten percent of net revenues, as defined or $1,000,000. On October 10, 2007, the legislature decreased the annual in lieu of tax payment to $700,000 retroactive to fiscal year 2006 and thereafter.

Capital Assets

Capital assets are recorded at cost and depreciated using the straight-line method over the estimated useful life of the assets. The capitalization threshold for capital assets is $5,000. Estimated useful lives of capital assets are as follows:

	Years
Building and building improvements	5-40
Personal property and equipment	3-25

When assets are retired, the cost and related accumulated depreciation of the property is removed from the accounts and any gain or loss is recognized as non-operating revenue or expense. Expenditures for major renewals and betterments are capitalized, while maintenance and repairs which do not extend the life of the assets are recorded as expenses.

The Authority evaluates whenever events or changes in circumstances indicate that the carrying amount of its capital assets have been impaired following the guidance of GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. During fiscal year 2011, the viNGN, Inc. recorded an impairment loss of $242 thousand for assets under construction as a consequence of a decision to terminate the project.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Operating and Nonoperating Revenues

Operating revenues of the Authority include revenues of the operating fund of the Authority, revenues from the West Indian Company complex, and King's Alley Management, Inc. complex. Nonoperating revenues consist of interest and dividend income generated from the restricted investments invested in short term investment instruments, federal grants, and budgetary allocations for operations. During the fiscal year ended September 30, 2011, the Authority's operating budget of $7.3 million included $3.5 million of budgetary allocations from excess matching funds.

Bond Discounts and Issuance Costs

Bond discounts and issuance cost are deferred and amortized over the life of the debt. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges in the Statement of Net Assets and are amortized over the term of the related debt on a straight-line basis which approximates the effective interest method.

Intra-account Transfers

Investment earnings not otherwise restricted are transferred between Authority accounts in accordance with Board requests and Legislative acts. These amounts offset and, therefore, are not shown in the accompanying financial statements.

Fair Value of Financial Instruments

The Authority uses the following methods and assumptions in estimating its fair value disclosures:

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

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

> *Cash and cash equivalents and due to/from the Government of U.S. Virgin Islands, receivables, accounts payable and other accrued liabilities:* the carrying amounts reported at cost or amortized cost in the statement of net assets for these instruments which amounts approximate their fair values.

Net Assets

Net assets are reported in three categories: a) invested in capital assets, b) restricted and, c) unrestricted. Liabilities that relate to specific restricted assets which exceed those assets are reported as a reduction of unrestricted net assets. Also, all assets and liabilities of bond reserve accounts are considered to be part of restricted net assets.

Effect of Recent GASB Statements

The adoption in fiscal year 2011 of GASB Statement No. 54. *Fund Balance Reporting and Governmental Fund Type Definitions* in the opinion of management did not apply to the Authority's financial statements.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Future Adoption of GASB Statements

Following are statements issued by GASB that are effective in future years. The impact of the adoption of these statements has not been determined by management:

Statement No.	Overview	Adoption Required in Fiscal Year
70	Accounting and Financial Reporting for Nonexchange Financial Guarantees	2013
69	Government Combinations and Disposals of Government Operations	2013
68	Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27	2014
67	Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25	2013
66	Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62	2012
65	Items Previously Reported as Assets and Liabilities	2012
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53	2012
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position	2013
62	Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements	2013
61	The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34	2013
60	Accounting and Financial Reporting for Service Concession Arrangements	2012

2. Cash and Cash Equivalents

Cash and cash equivalents, segregated by category at September 30, 2011, are as follows:

	Bank Balance	Carrying Amount
2011		
Restricted	$105,908,334	$104,312,598
Unrestricted	19,487,398	20,786,280
	$125,395,732	$125,098,878

Restricted cash and cash equivalents represents cash segregated for debt service due under the Authority's debt agreements and capital projects.

Unrestricted cash and cash equivalents may be used for operational purposes but may not be used for payments of dividends which are restricted by loan covenants.

As September 30, 2011, $93,010,957 or 75.0% of the Authority's deposits in banks were held at Bank of New York, $28,898,863 or 23.3% were held at Banco Popular de Puerto Rico, and $2,034,905 or 1.7% were held at First Bank Puerto Rico. Petty cash of $804 was held at WICO and $200 at KAMI. Deposits held at Banco Popular de Puerto Rico and First Bank Puerto Rico were fully collateralized.

3. Restricted Investments

Investments include investments restricted for specific purposes and investments held in trust. Pursuant to the requirements of the Indenture of Trust, certain assets of the Government are maintained in a reserve account controlled by the Authority, and may be used only for the payment of principal and interest on the Series 2011A Broadband Bond Anticipation Note, 2010 Bond Series A & B, 2009 Bond Series A (Cruzan), 2009 Bond Series A1, A2, B, & C, Series 2009A Tax Increment Revenue Bond Anticipation Notes, 2009 Bond Series A (Diageo), Series 2010A Bond Anticipation Notes, Series 2009 A Notes, Series 2008 Notes, 2006 Bond Series, 2004 Bonds Series A, 2003 Bonds Series A, and the1999 Bonds Series A.

Restricted investments in the reserve accounts at September 30, 2011, were as follows:

	Debt Service	Construction Funds	Project Funds	Total
2011 Series A & B Revenue Bonds	$ 49,800,637	$ –	$ –	$ 49,800,637
2009 Series A Bonds (Cruzan)	2,795,621	745,590	–	3,541,211
2009 Series A1,A2, B, C Revenue & Refunding Bonds	58,030,114	30,228,965	–	88,259,079
2009 Series A Bonds (Diageo)	21,126,958	7,924,603	–	29,051,561
2006 Series Bonds	1,090,220	1,446,658	–	2,536,878
2004 Series A Bonds	9,484,476	12,340,265	–	21,824,741
2003 Series A Revenue Bonds	18,153,229	15,615,521	–	33,768,750
1999 Series A Revenue Bonds	26,235,009	–	–	26,235,009
1998 Series Revenue Bonds	51,850,089	–	–	51,850,089
Subtotal Bonds	238,566,353	68,301,602	–	306,867,955
2011 A Broadband Anticipation Notes	255,198	–	24,422,153	24,677,351
2010 A Bond Anticipation Notes	266,086	–	–	266,086
2009 A TIR Bond Anticipation Notes	744,162	–	571,031	1,315,193
2009 A Notes	307,794	–	4	307,798
2008 Notes	240	–	–	240
Subtotal Notes	1,573,480	–	24,993,184	26,566,668
Total Bonds and Notes	$ 240,139,833	$ 68,301,602	$ 24,993,184	$ 333,434,623

3. Restricted Investments (continued)

Restricted investments, categorized by investment type, and weighted average maturity, at September 30, 2011, are as follows:

	2011	
	Fair Value	Weighted Average Maturity *(Years)*
Money Market Funds	$ 250,885,224	
Portfolio investements:		
Commercial paper	39,159,865	0.01
Government agency notes	43,389,534	0.96
Total fair value	82,549,399	0.51
Total investments	$ 333,434,623	

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

Credit Risk. The authorizing legislation of the Authority does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the Authority 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 deposits, guaranteed investment contracts, shares in mutual funds, investment companies, corporate commercial paper, money market portfolio and investment pools.

At September 30, 2011, the Authority’s investment in money market funds were rated AAAm by Standard & Poor’s, Aaa-mf by Moody’s Investor Service. The Authority’s investments in commercial securities were rated A- by Standard & Poor’s and A2 by Moody’s. The Authority’s investments in Federal Government instruments was rated AA+ by Standard & Poor’s and Aaa by Moody’s Investor Service.

3. Restricted Investments (continued)

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in one issuer. At September 30, 2011, more than 5% of the Authority's investments and restricted cash were invested in: Goldman Financial Square Money Market No. 524 (47.46%), Goldman Financial Square Money Market No. 474 (11.76%), Silver Tower FDG LLC (11.74%), Goldman Financial Square Money Market No. 465 (8.16%), and Invesco Money Market (7.87%).

Custodial Credit Risk. The Authority does not have a custodial credit risk policy. This is the risk that the Government will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2011, all investments of the Authority were held in the name of The Bank of New York Trust Company, N.A., as Trustee for the Authority. Investments in the trust accounts are limited to the investments permitted by the trust indenture.

4. Restricted Loans Receivables

The Authority loaned the proceeds of the Series 2011A Broadband Bond Anticipation Notes, Series 2010A Bond Anticipation Notes, Series 2009A Notes, Series 2008 Notes, Series 2006 Revenue Bonds, 2003 Revenue Bonds Series A and the 1999 Bonds Series A to the Government of the Virgin Islands. The loans, which are secured with pledged gross receipts taxes collected pursuant to Title 3, Section 43 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable (see Note 6).

The Authority loaned the proceeds of the 2010 Bond Series A & B, 2009 Bond Series (Cruzan), 2009 Bond Series A1, A2, B & C, 2009 Bond Series A (Diageo), 2004 Bond Series A and the 1998 Bond Series A, B, C, D and E to the Government of the Virgin Islands. The loans, which are secured with pledged matching fund revenues pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, bear the same interest rates, maturities, and repayment terms as the bonds payable (see Note 6).

The Authority loaned the proceeds of the 2009 Series A Tax Increment Revenue Bond Anticipation Note to the Government of the Virgin Islands. The loan, which is secured by Island Crossings Incremental Tax Revenue, bears the same interest rate, maturity, and repayment terms as the note payable (see Note 8).

4. Restricted Loans Receivables (continued)

On September 30, 2011, the Government of the Virgin Islands advanced loan payments due on October 1, 2011. A summary of loan payments by associated bond series follows:

Bond Series	Payment
2009 Cruzan Bonds	$ 565,000
2009 A1, A2, B & C Bonds	29,650,000
2006 Bonds	2,705,000
2004 Bonds	3,805,000
2003 Bonds	3,635,000
1999 Bonds	6,950,000
	$47,310,000

5. Capital Assets

	Balance 9/30/2010	Additions	Impairment/ Disposal	Transfers	Balance 9/30/2011
Land	$ 5,147,278	$ 615,900	$ –	$ –	$ 5,763,178
Buildings and building improvements	59,980,131	114,103	–	–	60,094,234
Personal property and equipment	3,619,334	1,786,697	(138,016)	–	5,268,015
Total	68,746,743	2,516,700	(138,016)	–	71,125,427
Less accumulated depreciation	(21,347,508)	(2,443,253)	110,535	–	(23,680,226)
	47,399,235	73,447	(27,481)	–	47,445,201
Construction in progress	–	5,791,254	(262,211)	(143,271)	5,385,772
Total capital assets, net	$ 47,399,235	$ 5,864,701	$ (289,692)	$ (143,271)	$ 52,830,973

5. Capital Assets (continued)

As of September 20, 2011, a significant amount of work was completed by viNGN's architects on a NOC/DC/HQ building. It was the CEO's intention at the time to have this structure completed. On October 27, 2011, the Board met and decided to remove the CEO and on December 8, 2011, the Board met and voted to have the agreement with the viNGN's architect amended, to delete the design of the NOC/DC/HQ. As a consequence the work performed by viNGN's architects in the amount of $262,211 was written down.

6. Bonds Payable

A summary of bond activity for the year ended September 30, 2011, follows (in thousands):

	Bonds Outstanding 9/30/2010	New Issuances	Debt Payments	Bonds Outstanding 9/30/2011
	(In thousands)			
2010 Series	$ 399,050	$ –	$ –	$ 399,050
2009 Series "Cruzan"	39,190	–	(550)	38,640
2009 Series "R&R"	458,840	–	(8,460)	450,380
2009 Series "Diageo"	250,000	–	–	250,000
2006 Series	215,965	–	(1,580)	214,385
2004 Series	78,860	–	(3,625)	75,235
2003 Series	252,455	–	(3,495)	248,960
1999 Series	87,695	–	(6,580)	81,115
Total	$ 1,782,055	$ –	$ (24,290)	$ 1,757,765

6. Bonds Payable (continued)

Bonds payable at September 30, 2011, are comprised of the following (in thousands):

2010 Series A and B Revenue Bonds Interest at 4.00% to 5.25%	$ 399,050
2009 Series A Revenue Bonds (Cruzan) Interest at 3.00% to 6.00%	38,640
2009 Series A1, A2, B & C Revenue & Refunding Bonds Interest at 3.00% to 5.00%	450,380
2009 Series A Revenue Bonds (Diageo) Interest at 6.00% to 6.75%	250,000
2006 Series Revenue Bonds Interest at 3.50% to 5.00%	214,385
2004 Series A Revenue Bonds Interest at 4.00% to 5.25%	75,235
2003 Series A Revenue Bonds Interest at 4.00% to 5.25%	248,960
1999 Series A Revenue Bonds Interest at 5.625% to 6.50%	81,115
Total bonds payable	1,757,765
Less: Current portion	(47,310)
Less: Deferred amount on defeased and refunded bonds	(10,161)
Long-term portion of bonds payable	$ 1,700,294

On July 8, 2010, the Authority issued the Series 2010A, and Series 2010B Revenue Bonds, the proceeds of which amounted to $399,050,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Sixth Supplemental Indenture and the Series 2010 Loan Notes issued by the Government. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2010A Bonds were issued to: (i) finance various operating expenses of the Government, (ii) refinance a portion of the outstanding Series 2009 B1 & B2 Notes, (iii) fund the Series 2010A Subordinate Lien Debt Service Reserve Account, and (iv) finance certain costs of issuance of the Series 2010A Bonds. The Series 2010B Bonds were issued to: (i) refinance a portion of the outstanding Series 2009 B1 & B2 Notes, (ii) fund the Series 2010B Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2010B Bonds. The Series 2010A Bonds amount to $305,000,000 and mature from 2012 to 2029 at an interest rate of 4.00% to 5.00%. The Series 2010B Bonds amount to $94,050,000 and mature from 2020 to 2029 at an interest rate of 4.25% to 5.25%.

6. Bonds Payable (continued)

On December 17, 2009, the Authority issued the Series 2009 A Bonds, amounting to $39,190,000, to finance the costs of the development, acquisition, construction and installation of a wastewater treatment facility and to fund certain preliminary costs of the alteration, upgrade, expansion and renovation of the Cruzan distillery on St. Croix, to establish debt service reserves, and to finance costs of issuance of the 2009A Bonds. These bonds are special limited obligations of the Authority payable from and secured by a pledge of the Cruzan Trust estate, which includes certain funds established under the Subordinated Indenture and the First Supplemental Subordinate Indenture of Trust. The bonds bear interest at 3.00% to 6.00% and mature from 2010 to 2039 and are subject to an optional redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

In association with the 2009 Series A bonds, the Authority entered into an agreement with Cruzan VIRIL, Ltd. (Cruzan), on October 6, 2009. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to the Government and Cruzan of 60%-80%, and 54%-60%, respectively.

On October 1, 2009, the Authority issued the Series 2009A-1, Series 2009A-2, Series 2009B, and Series 2009C Revenue and Refunding Bonds, the proceeds of which amounted to $458,840,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Fourth Supplemental Indenture and the Series 2009 Loan Notes issued by the Government. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2009A-1 and the Series 2009A-2 Bonds were issued to: (i) finance various capital projects of the Government , (ii) fund the Series 2009A Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009A-1 and 2009A-2 Bonds. The Series 2009A-1 Bonds amount to $86,350,000 and mature from 2010 to 2039 at interest rates from 3.00% to 5.00%. The Series 2009A-2 Bonds amount to $8,650,000 and mature from 2010 to 2011 at an interest rate of 3.00%. The Series 2009B Bonds were issued to: (i) current refund the Series 1998A Revenue and Refunding Bonds (Senior Lien/Refunding Bonds), (ii) fund the Series 2009B Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009B Bonds. The Series 2009B Bonds amount to $266,330,000 and mature from 2010 to 2025 at an interest rate of 5.00%. The Series 2009C Bonds were issued to: (i) current refund the Series 1998E Revenue and Refunding Bonds (Subordinate Lien/Capital Program Bonds), (ii) fund the Series 2009C Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009C Bonds. The Series 2009C Bonds amount to $97,510,000, and mature from 2010 to 2022 at an

6. Bonds Payable (continued)

interest rate of 5.00%. The Series 2009 Bonds are subject to optional redemption by the Authority on or after October 1, 2019 at redemption price of 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

The current refunding of the 1998 Series A & 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.

On July 9, 2009, the Authority issued the 2009 Series A Bonds, the proceeds of which amounted to $250,000,000. These bonds are secured by a pledge of Diageo Matching Fund Revenues (Matching Funds generated from the sale of Captain Morgan rum products), which includes certain funds established under the original indenture, the Third Supplemental Indenture and the 2009 Matching Fund Loan Note – Diageo Project, Series A issued by the Government. The bonds bear interest at 6.00% to 6.75% and mature from 2013 to 2037. The proceeds were loaned to the Government of the United States Virgin under the same terms as the bonds. The bonds are limited special obligations of the Authority. The bonds were issued to: (i) provide a grant to Diageo USVI, Inc. ("Diageo USVI") to finance the costs of the acquisition, design, development, construction and equipping of a rum production and maturation warehouse facility to be located on St. Croix (the "Diageo Project") (ii) redeem the Subordinated Revenue Bond Anticipation Notes (Virgin Islands Matching Fund Loan Notes – Diageo Project) Series 2009A issued to finance preliminary costs of the Diageo Project (iii) fund the Series 2009A Senior Lien Debt Service Reserve Account, (iv) pay capitalized interest on the Series 2009A Bonds, and (v) finance certain costs of issuance of the Series 2009A Bonds. The Series 2009A Bonds maturing on or after October 1, 2020 shall be 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 fixed for redemption.

In association with the 2009 Series A bonds, the Authority entered into an agreement with Diageo USVI, Inc. (Diageo), on June 17, 2008. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to Diageo of 49.5%-57%.

6. Bonds Payable (continued)

On September 28, 2006 the Authority issued the 2006 Series Bonds, the proceeds of which amounted to $219,490,000. These bonds are secured by a pledge of the Trust estate, which includes certain funds established under the original Indenture, the Seventh Supplemental Indenture and the 2006 Gross Receipts Taxes Loan Note, Series issued by the Government. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the Bonds. The bonds are limited special obligations of the Authority. The bonds bear interest at 3.50% to 5.00% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) refund a portion of the Authority's Revenue Bonds, Series 1999 A, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund the Debt Service Reserve Account, (v) pay certain costs of issuing the Series 2006 Bonds and (vi) fund a net payment reserve account for a new swap agreement. The 2006 Series Bonds maturing on or before October 1, 2016 are not subject to optional redemption.

The advance refunding of the 2024 and 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.

In February 2008, the counterparty negotiated a settlement payment to the Authority to terminate the 2006 Basis Swap. The Authority received $4.91 million from the counterparty, and a release of reserves of $2.9 million to the Series 2006 bond project accounts.

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 2024 to 2029 maturities of the 1999 Series A Bonds. Approximately $175,125,168 in funds was deposited into the Escrow Fund accounts. At September 30, 2010, $162,870,000 of the defeased 1999 bonds are outstanding.

On December 1, 2004, the Authority issued the 2004 Series A Bonds, the proceeds of which amounted to $94,000,000. The Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2024. The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix (ii) finance the repairs,

6. Bonds Payable (continued)

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 newly created 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 A Bonds are not subject to optional redemption prior to October 1, 2014.

On December 17, 2003, the Authority issued the Series 2003 A Revenue Bonds the proceeds of which amounted to $268,020,000. These bonds are secured by a pledge of the Trust estate, which includes certain funds established under the original Indenture, the Fourth Supplemental Indenture and the 2003 Gross Receipts Taxes Loan Note, Series A issued by the Government. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2033. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the Bonds. The bonds are limited special obligations of the Authority. The bonds were issued to: (i) repay the Authority's outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund the Debt Service Reserve Accounts, and (iv) pay certain costs of issuing the Series 2003A Bonds. The 2003 Series A Bonds are not subject to optional redemptions prior to October 1, 2014.

On February 28, 2003, the Authority entered into a swaption contract that provided the Authority with an up-front payment of $8.3 million. The swaption gave the counterparty the option to make the Authority enter into a pay-fixed, receive-variable interest rate swap. If the option was exercised, the Authority would then expect to issue variable-rate refunding bonds. The Authority has outstanding $243,985,000 of 1999A Series Bonds with maturities from 2011 to 2029. The 1999A Bonds were callable by the Authority on October 1, 2010 at 101%. Having been advised by its underwriters and financial advisor that there were no net present value savings available to it by issuing conventional advance refunding bonds, the Authority sold a LIBOR based swaption to Lehman Brothers Special Financing, Inc. on the 2024 and 2029 maturities, totaling $162,870,000. Lehman purchased the swaption for $8,367,000 and it was exercisable on July 1, 2010 only. As part of the 2006 Series Bonds, the swap option was terminated and the authority made a payment to Lehman Brothers as part of this termination for $26,910,000.

On November 1, 1999, the Authority issued the 1999 Series A Bonds, the proceeds of which amounted to $299,880,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges.

6. Bonds Payable (continued)

The bonds were issued to (i) pay certain working capital obligations of the Government, (ii) repay the Government's outstanding 1999 tax and revenue anticipation note, (iii) fund the Series Debt Service Reserve Accounts and (iv) pay certain costs of issuing the bonds. On September 28, 2006, the Authority advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2024 and 2029 totaling $162,870,000.

On May 1, 1998, the Authority issued the 1998 Series A, B, C, D, and E Bonds, which proceeds amounted to $541,820,000. These bonds are not guaranteed by the Government, however, the Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 1998 Series Bonds. These bonds were issued for the purpose of, among others, the advance refunding of previously issued bonds. The advance refunding of these bond series was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40 million and an economic gain of approximately $19 million. On October 28, 2009, the Authority current refunded the 1998 Bonds with the 2009 Series B & C Bonds.

The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993 and Series 1994 Bonds. Approximately $304,520,000 in funds was deposited into the Escrow Fund accounts. At September 30, 2011, $100,290,000 of defeased bonds were outstanding. The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest on the 1998 Revenue Anticipation Note. The balance of the 1998 Series D Bond financed approximately $ 11,600,000 in additional working capital. The 1998 Series E Bonds were designated to fund the construction of certain capital projects.

The proceeds of the Series 1992 Revenue bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue bonds. At September 30, 2011, $100,715,000 of defeased bonds was outstanding.

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

6. Bonds Payable (continued)

Pledged Funds

The Government has pledged Gross Receipts Taxes subject to the annual moderate income housing fund deposit, as well as any prior lien or pledge, to the timely payment of the principal and interest on the Series 2011A Notes, Series 2010 A1 and A2 Notes, the Series 2009A Notes, Series 2008 Notes, 2006 Revenue Bonds, the Series 2003 A Bonds and the 1999 Series A Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

The Government has pledged the Matching Fund Revenues, as described below, to the timely payment of principal and interest on the 2010 Series A & B Bonds, 2009 Series A Bonds (Cruzan), the 2009 Series A1, A2, B & C Bonds, the 2009 Series A Bonds (Diageo), the 2004 Series A Bonds and the 1998 Series A, B, C, D and E Bonds. Thus, all amounts to be received by the Government from federal excise tax, mostly for rum, are deposited directly in a trust account from which the 2010 A & B, 2009 A Cruzan, 2009 A1, A2, B & C, 2009 A Diageo, 2004 and 1998 Bonds are paid in accordance with the Indenture of Trust.

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

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

6. Bonds Payable (continued)

Interest on Bonds

Interest on the 2010 Series A & B bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2010 Series A & B bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the 2009 Series A bonds (Cruzan) is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2009 Series A bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the 2009 Series A1, A2, B & C bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2009 Series A1, A2, B & C bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the 2009 Series A bonds (Diageo) is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2009 Series A bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the 2006 Series bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2006 Series bonds. The principal and interest payments on October 1 are funded by Gross Receipts taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts taxes.

6. Bonds Payable (continued)

Interest on Bonds (continued)

Interest on the 2004 Series A bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2004 Series A bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

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

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

6. Bonds Payable (continued)

Interest on Bonds (continued)

Interest expense related to bonds payable during the fiscal years ended September 30, 2011, is as follows (in thousands).

2010 Series A/B Revenue Bonds	$ 20,021
2009 Series A Revenue Bonds (Cruzan)	2,235
2009 Series A1,A2, B, C Revenue Bonds	22,138
2009 Series A Revenue Bonds (Diageo)	16,703
2006 Series Revenue Bonds	10,397
2004 Series Revenue Bonds	3,909
2003 Series Revenue Bonds	12,539
1999 Series Bonds	5,171
1998 Revenue & Refunding Bonds	–
	93,113
Other interest expense mainly related to loans and notes payable outstanding	6,924
Total	$100,037

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2011, for the Series 2010 A & B Revenue Bonds are as follows (in thousands):

	Series 2010 A & B		
October 1	**Principal**	**Interest**	**Total**
2011	$ –	$ 10,011	$ 10,011
2012	1,990	20,021	22,011
2013	2,065	19,942	22,007
2014	2,155	19,859	22,014
2015	2,270	19,773	22,043
2016-2020	14,380	97,440	111,820
2021-2025	129,720	94,742	224,462
2026-2029	246,470	49,849	296,319
	$ 399,050	$ 331,637	$ 730,687

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2011, for the Series 2009 A (Cruzan) Revenue Bonds are as follows (in thousands):

	Series 2009 A Bonds - Cruzan		
October 1	**Principal**	**Interest**	**Total**
2011	$ 565	$ 1,118	$ 1,683
2012	585	2,218	2,803
2013	605	2,201	2,806
2014	640	2,171	2,811
2015	670	2,139	2,809
2016-2020	3,045	10,153	13,198
2021-2025	–	9,759	9,759
2026-2030	–	9,759	9,759
2031-2035	–	9,759	9,759
2036-2038	32,530	7,807	40,337
	$ 38,640	$ 57,084	$ 95,724

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2011, for the Series 2009 A1, A2, B & C Revenue and Refunding Bonds are as follows (in thousands):

	Series 2009 A1, A2, B & C Revenue and Refunding Bonds		
October 1	**Principal**	**Interest**	**Total**
2011	$ 29,650	$ 11,069	$ 40,719
2012	24,145	20,819	44,964
2013	25,355	19,642	44,997
2014	26,460	18,407	44,867
2015	27,955	17,112	45,067
2016-2020	126,010	63,513	189,523
2021-2025	132,975	43,026	176,001
2026-2030	14,705	13,722	28,427
2031-2035	–	10,781	10,781
2036-2039	43,125	8,625	51,750
	$ 450,380	$ 226,716	$ 677,096

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2011, for the Series 2009 A Bonds (Diageo) Revenue Bonds are as follows (in thousands):

	Series 2009 A Bonds (Diageo)		
October 1	**Principal**	**Interest**	**Total**
2011	$ –	$ 8,351	$ 8,351
2012	–	16,703	16,703
2013	4,040	16,703	20,743
2014	4,290	16,703	20,993
2015	4,575	16,203	20,778
2016-2020	28,120	79,240	107,360
2021-2025	39,245	72,142	111,387
2026-2030	54,665	66,319	120,984
2031-2035	76,475	43,031	119,506
2036-2037	38,590	17,213	55,803
	$ 250,000	$ 352,608	$ 602,608

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2011, for the Series 2006 Revenue Bonds are as follows (in thousands):

	Series 2006		
October 1	**Principal**	**Interest**	**Total**
2011	$ 2,705	$ 5,199	$ 7,904
2012	2,805	10,262	13,067
2013	2,905	10,122	13,027
2014	3,015	9,977	12,992
2015	3,125	9,826	12,951
2016-2020	29,565	46,666	76,231
2021-2025	87,710	33,297	121,007
2026-2029	82,555	9,853	92,408
	$ 214,385	$ 135,202	$ 349,587

Maturity dates and debt service requirements as of September 30, 2011, for the Series 2004 A Revenue Bonds is as follows (in thousands):

	Series 2004 A		
October 1	**Principal**	**Interest**	**Total**
2011	$ 3,805	$ 1,954	$ 5,759
2012	3,995	3,719	7,714
2013	4,195	3,519	7,714
2014	4,405	3,309	7,714
2015	4,625	3,089	7,714
2016-2020	27,020	11,538	38,558
2021-2024	27,190	3,660	30,850
	$ 75,235	$ 30,788	$ 106,023

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2011, for the Series 2003 A Revenue Bonds is as follows (in thousands):

	Series 2003 A		
October 1	**Principal**	**Interest**	**Total**
2011	$ 3,635	$ 6,269	$ 9,904
2012	3,815	12,357	16,172
2013	4,010	12,166	16,176
2014	4,210	11,966	16,176
2015	4,420	11,755	16,175
2016-2020	25,840	55,041	80,881
2021-2025	33,270	47,609	80,879
2026-2030	64,830	38,400	103,230
2031-2033	104,930	10,664	115,594
	$ 248,960	$ 206,227	$ 455,187

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2011, for the Series 1999 A Revenue Bonds is as follows (in thousands):

	Series 1999 A		
October 1	**Principal**	**Interest**	**Total**
2011	$ 6,950	$ 2,586	$ 9,536
2012	7,395	4,720	12,115
2013	7,865	4,257	12,122
2014	8,365	3,755	12,120
2015	8,900	3,222	12,122
2016-2019	41,640	6,841	48,481
	$ 81,115	$ 25,381	$ 106,496

6. Bonds Payable (continued)

Interest on Bonds (continued)

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

	Total Debt Services		
October 1	**Principal**	**Interest**	**Total**
2011	$ 47,310	$ 46,557	$ 93,867
2012	44,730	90,819	135,549
2013	51,040	88,552	139,592
2014	53,540	86,147	139,687
2015	56,540	83,119	139,659
2016-2020	295,620	370,432	666,052
2021-2025	450,110	304,235	754,345
2026-2030	463,225	187,902	651,127
2031-2035	181,405	74,235	255,640
2036-2039	114,245	33,645	147,890
	$ 1,757,765	$ 1,365,643	$ 3,123,408

The 2010 Series A & B Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

2010 Series A & B	**Price**
October 1, 2021 and thereafter	100%

6. Bonds Payable (continued)

Interest on Bonds (continued)

The 2009 Series A Bonds (Cruzan) maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

2009 Series A (Cruzan)	Price
October 1, 2019 and thereafter	100%

The 2009 Series A1, A2, B & C Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

2009 Series A1, A2, B & C	Price
October 1, 2019 and thereafter	100%

The 2009 Series A Bonds (Diageo) maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

2009 Series A (Diageo)	Price
October 1, 2019 and thereafter	100%

The 2006 Series Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

2006 Series A	Price
October 1, 2016 and thereafter	100%

6. Bonds Payable (continued)

Interest on Bonds (continued)

The 2004 Series A Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

2004 Series A	Price
October 1, 2014 and thereafter	100%

The 2003 Series A Bonds are not subject to optional redemption prior to October 1, 2014. The Series 2002 Revenue Bonds are not subject to redemption prior to maturity. The Series 1999 A Bonds are not subject to optional redemption prior to October 1, 2010. The Authority may redeem these bonds at the respective redemption prices, expressed as a percentage of the principal amount redeemed as follows:

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

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

7. Conduit Debt

In November 2002, the Authority and the Government 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 million ($126.8 million in total), respectively, 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 the Authority and the Government, payable solely from and are secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority, Government and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority's basic financial statements. As of September 30, 2011, $126.8 million of the bonds remain outstanding.

In December 2003, the Authority 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 6.125% and are limited obligations of the Authority, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority's basic financial statements. As of September 30, 2011, $74.2 million of the bonds remain outstanding.

In April 2004, the Authority 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 5.875% and are limited obligations of the Authority, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority's basic financial statements. As of September 30, 2011, $50.7 million of the bonds remain outstanding.

7. Conduit Debt (continued)

In March 2007, the Authority 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 4.70% and are limited obligations of the Authority, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority's basic financial statements. As of September 30, 2011, $104.1 million of the bonds remain outstanding.

8. Long-Term Loans and Notes

Long-term loans and notes outstanding were as follows:

	Loans Outstanding 9/30/2010	New Issuances	Deb Payments	Loans Outstanding 9/30/2011
		(In thousands)		
2011 A BAN Broadband	–	$ 32,235	$ –	$ 32,235
2010 A1 & A2 BAN	–	131,400		131,400
2009 B1 & B2 BAN	6,400	–	(6,400)	–
2009 A TIR BAN	10,032	4,000	–	14,032
2009 A Revenue				–
Loan Note	7,292	–	(1,473)	5,819
2008 VIPD Note	2,450		(2,450)	–
WICO	22,909	–	(651)	22,258
Total	$ 49,083	$ 167,635	$ (10,974)	$ 205,744

On April 29, 2011, the Authority entered into Subordinate Lien Revenue Bond Anticipation Notes, Series 2011A, (Virgin Islands Gross Receipts Taxes Loan Notes) in the aggregate amount of $32,235,000. The Series 2011A Notes reach maturity on April 12, 2012, at which time principal and accrued interest are due. Interest accrues quarterly at a rate of 4.75%. The proceeds of the Series 2011A Notes were loaned to the Government of the Virgin Islands for the purposes of upgrading broadband technology, infrastructure and equipment.

8. Long-Term Loans and Notes (continued)

On November 4, 2010, the Authority entered into 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 $78,840,000 from the Agent Lender and $52,560,000 from the Syndicate Lender. As of September 30, 2011, the Authority had drawn $131.4 million under the 2010A Series Notes ($78.8 million from the Agent lender and $52.6 million from the Syndicate lender).

On September 18, 2009, the Authority entered into Subordinated Lien Revenue Bond Anticipation Notes (the "Series 2009B Notes") creating credit facilities with two local banks: 1) the Series 2009B-1 Note with First Bank of Puerto Rico (the "Agent Lender") in the amount of $150 million, and 2) the Series 2009B-2 Note with Banco Popular de Puerto Rico (the "Syndicate Lender") in the amount of $100 million. The purpose of the Series 2009B Notes is to provide a loan to the Government of the Virgin Islands in the amount of $250 million (the "Series 2009B Gross Receipts Taxes Loan Notes") to finance (i) certain operating expenses of the Government, and (ii) to pay costs of the issuance. The Series 2009B Gross Receipts Taxes Loan Notes are general obligations of the Government. The Government has also pledged a security interest in gross receipts tax collections. Interest is assessed at 400 points above the 90-day LIBOR rate, at a floor rate of 5.50%. Interest payments are due the first business day of the month, effective October 1, 2009. As of November 3, 2010, the Authority had drawn $206.4 million under the Series 2009B Notes, and had repaid $200.0 million, leaving an outstanding amount of $6.4 million ($3.8 million from the Agent lender and $2.6 million from the Syndicate lender). On November 4, 2010, the principal balance of the 2009B Notes was paid by proceeds of the Series 2010A Notes.

On September 25, 2009, the Authority entered into a Bond Anticipation Note Purchase Agreement with a local bank. Under the terms of the Note Purchase Agreement, the bank will purchase up to $15,700,000 in federally taxable Bond Anticipation Notes (the "Series 2009A Notes") issued by the Authority. The purpose of the Series 2009A Notes is to provide a loan to the Government of the Virgin Islands (the "Series 2009A Tax Increment Revenue Loan Note") to finance the development of a shopping complex on the island of St. Croix. The financing is provided under Tax Increment Financing legislation enacted in October 2008 by the Government. Both the Series 2009A Notes, and the Series 2009 Tax Increment Revenue Loan Notes have a term of three years, maturing on October 1, 2012 with interest of 300 points above

8. Long-Term Loans and Notes (continued)

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 made in eleven quarterly payments and a final payment on October 1, 2015. Under the terms of the Series 2009A Notes, the Authority may issue Tax Increment Revenue Bonds to defease the debt prior to that date. As of September 30, 2011, the Authority had sold $14,031,528 in Series 2009A Notes to the local bank, and loaned that amount to the Government. The proceeds were used to: i) fund a capitalized interest account, ii) pay costs of issuance, and iii) fund the first phase of the development of the shopping complex.

On February 12, 2009, the Authority issued the Subordinate Lien Revenue Bond Anticipation Notes, Series 2009A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $8,000,000 (the “Series 2009 A Notes”). The Series 2009A Notes accrued interest at a rate of 4.75% due at maturity on February 1, 2010. The proceeds of the Series 2009A Notes were loaned to the Government of the Virgin Islands under the same terms, for the purposes of (i) financing the purchase and installation of 911 communication equipment for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the Series 2009A Notes. On February 1, 2010, the Authority elected a conversion of the Series 2009 A Notes to a term note with principal and interest payable semi-annually, with an interest rate of 5.40% and maturity date of August 1, 2015.

On August 12, 2008, the Authority issued the Subordinate Lien Revenue Notes, Series 2008A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $7,650,000 (the “Series 2008 Notes”). The Series 2008 Notes accrue interest monthly at a rate of 4.75% for 36 months. The proceeds of the Series 2008 Notes were loaned to the Government of the Virgin Islands 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.

On June 1, 2008, the West Indian Company (WICO) refinanced its outstanding loans and obtained additional financing of $2.3 million, increasing the facility to $23,500,000. The loan will be repaid in 120 consecutive monthly installments of $154,953 (representing principal and interest) and a final payment of the outstanding principal balance plus any unpaid interest in 2018. The loan may be prepaid, in whole or in part, at any time without penalty.

8. Long-Term Loans and Notes (continued)

WICO has guaranteed the notes and has pledged all leases and revenues to secure the loans. Pursuant to the requirement of the Loan Agreements, WICO maintains restricted cash in a reserve account controlled by the Authority for the payment of principal and interest on the long-term notes. This Debt Service Reserve Fund will be equal to one year's debt service payments. As of September 30, 2011, as required by the Loan Agreements, the Company has funded 100% of this amount, which is presented in the statement of net assets as restricted cash in the amount of $1,934,347.

Over the last three years WICO's operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and also by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Ports Authority. This situation is compounded by a minimum contribution in lieu of taxes of $700,000, regardless of the operating results. These situations have resulted in a deficit in working capital (current assets less current liabilities) of approximately $176,000 and a deficit in unrestricted net assets of approximately $1,609,300 in fiscal year 2011. As a consequence, WICO did not comply, as of September 30, 2011 and for the year then ended, with loan covenant requirement minimum operating revenue thresholds. At September 30, 2011, WICO did comply with the debt service reserve requirement of its loan agreement, which requires that it set aside sufficient cash for the following year's debt service requirements. WICO requested and the Bank granted a waiver over the failure to comply with the minimum operating revenue for fiscal year 2011. The waiver was granted on January 28, 2013.

As part of the loan agreements, no dividends may be declared and no additional equity interests may be granted during the term of the loans without the lenders approval.

8. Long-Term Loans and Notes (continued)

Pledged Funds

The Government has pledged Island Crossings Incremental Tax Revenue and proceeds of the anticipated Tax Increment Revenue Bond Anticipation Note to the timely payment of the principal and interest on the 2009 A Loan. Incremental Tax Revenue will be deposited into the Island Crossing Tax Increment Trust account in accordance with the Loan Agreement.

The Authority has pledged WICO revenues to the timely payment of principal and interest of the loan. Interest expense during the periods ended September 30, 2011, amounted to $1.5 million.

Future minimum payments of principal for the five years subsequent to September 30, 2011, and thereafter are as follows:

Fiscal Year	2011 A Bond Anticipation Notes	2010 A1 & A2 Bond Anticipation Notes	2009 TIR Bond Anticipation Notes	2009 A Revenue Loan Notes	WICO	Total
2012	$ 32,235,000	$ –	$ –	$ 1,553,522	$ 501,026	$ 34,289,548
2013	–	–	179,903	1,638,544	532,987	2,351,434
2014	–	131,400,000	253,264	1,728,220	566,988	133,948,472
2015	–	–	269,468	899,262	603,158	1,771,888
2016	–	–	13,328,893	–	641,635	13,970,528
2017	–	–	–	–	682,566	682,566
2018	–	–	–	–	18,729,117	18,729,117
	32,235,000	131,400,000	14,031,528	5,819,548	22,257,477	205,743,553
Less current debt	32,235,000	–	–	1,553,522	501,026	34,289,548
Total	$ –	$ 131,400,000	$ 14,031,528	$ 4,266,026	$ 21,756,451	$ 171,454,005

9. Federal Grants

On January 4, 2010, the Authority's Office of Economic Opportunity was awarded a federal grant in the amount of $1,294,854 from the U.S. Department of Commerce under the American Recovery and Reinvestment Act of 2009 for the development of a U.S. Virgin Islands Broadband Mapping and Planning System. On September 28, 2010 the award was increased to $3,009,506. The grant period is from January 1, 2010 through December 31, 2014. For the year ended September 30, 2011, the Authority had $106,007 in reimbursable project expenses related to the project.

On August 17, 2010, the Authority's Office of Economic Opportunity was awarded a federal grant in the amount of $58,888,469 from the U.S. Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the U.S. Virgin Islands Comprehensive Community Infrastructure Project. The grant period is from August 1, 2010 through July 31, 2013. As of September 30, 2011, the Authority had $2,010,494 in reimbursable project expenses related to the project. On August 31, 2011, the Authority received communication from the US Department of Commerce recommending the suspension of the grant pending the completion of a corrective action plan to address certain deficiencies observed in the operation and management of the grant. A corrective action plan was submitted to the U.S. Department of Commerce on October 3, 2011. On October 17, 2011, the Authority received approval of the corrective action plan and lifting of the stop-work order.

On September 13, 2010, the Authority's Office of Economic Opportunity was awarded a federal grant in the amount of $2,535,082 from the U.S. Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the U.S. Virgin Islands Sustainable Broadband Adoption Program. The grant period is from September 1, 2010 through August 31, 2013. As of September 30, 2011, the Authority had $110,025 in reimbursable project expenses related to the project.

On September 13, 2010, the Authority's Office of Economic Opportunity was awarded a federal grant in the amount of $3,021,867 from the U.S. Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the U.S. Virgin Islands Public Computer Centers project. The grant period is from September 1, 2010 through August 31, 2013. As of September 30, 2011, the Authority had $235,745 in reimbursable project expenses related to the project.

9. Federal Grants (continued)

As of September 30, 2011, the Authority's Office of Economic Opportunity received $685,275 as a sub-recipient of the ARRA formula grant for State Fiscal Stabilization.

On September 30, 2011, the Virgin Islands Next Generation Network entered into a Memorandum of Agreement (MoA) with the Virgin Islands Water and Power Authority (WAPA), 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.

As part of the Broadband Expansion Project, WAPA is expected to provide in-kind contributions intended to satisfy a portion of the non-federal cost share requirement of the Comprehensive Community Infrastructure "CCI" grant. WAPA's in-kind contributions share consists of the use of certain WAPA facilities, equipment and communications infrastructure.

10. Commitments

Future Minimum Lease Payments

The Authority entered into a 20-year lease for a property in St. Croix from February 15, 1996 through February 15, 2016. Future minimum lease payments for the remaining periods are as follows:

Future lease payments:	
2012	$ 70,000
2013	70,000
2014	70,000
2015	70,000
2016	26,250
Total future minimum payments	$ 306,250

11. Contingencies

The Authority has a loan receivable amounting to approximately $1.9 billion from the Government (see Note 4). The principal and interest to be paid by the Government to the Authority on the loans receivable is mainly derived from excise taxes on exported rum received by the Government and gross receipts taxes, as more fully described in Note 6 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the 2010 A & B, 2009 A (Cruzan), 2009 A1, A2, B & C, 2009A (Diageo), 2006, 2004A, 2003, and 1999 Bonds and the Series 2011 A, 2010 A1 & A2, Series 2009A, 2009 TIR, and 2008 Notes.

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

Notwithstanding the Government's past financial difficulties, the Legislature of the Virgin Islands has not yet waived on or reduced the Molasses subsidy. If such an event should occur, the rum producers could experience a decrease in their operations, and therefore result in a reduction of the federal excise taxes returned to the Government by the United States Government. The collectability of the loans receivable from the Government is highly dependent on the ability of the government in collecting these taxes.

The Authority is party to a Memorandum of Agreement with the Virgin Islands Department of Education to administer $5 million in funds appropriated by the Virgin Islands Legislature to be expended as follows: (i) the development of engineering specifications and plans for the Virgin Islands public schools and (ii) repairs, renovations and upgrades at specified Virgin Islands public schools. The agreement was executed on September 28, 2007. As of September 30, 2011, the Authority had made outlays from the funds, net of interest earnings, of $4.5 million.

11. Contingencies (continued)

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

On June 30, 2010, the Authority approved support for a guaranty of a commercial loan for the Paradise Point Project (a privately-owned tramway, restaurant, and shopping complex on the island of St. Thomas) in the amount of $9.4 million. These funds are to be used for construction and repairs of Paradise Point, marketing, working capital and interest reserves. The guaranty is subject to completion of due diligence, necessary Legislative authorization, and further Board of Directors approval once financing is obtained by Wintdots Development.

During the normal course of business, the Authority is a defendant in various lawsuits. In the opinion of management and legal counsel, the outcome of these cases and resulting liability, if any, is either adequately covered by insurance or should not materially affect the Authority's financial position.

12. Concentration of Risk

All of the matching fund revenues are derived from federal excise taxation of the sale of rum produced in the Virgin Islands. For every proof gallon of rum produced in the Virgin Islands and exported to the U.S. mainland, $10.50 is returned to the territory. In 1999, and as extended in subsequent years, the excise tax rebate was temporarily increased to $13.25 per proof gallon. The current extension will expire on December 31, 2011. Rum production and exportation was by a single producer in 2010 (Cruzan). The construction of a second production facility (Diageo) was completed in November, 2010. Production at Diageo began in January 2011, and exportation is planned to commence after a two-year aging cycle.

12. Concentration of Risk (continued)

Customers representing more than 10% of total revenues for the West Indian Company during the year ended September 30, 2011, were as follows:

Royal Caribbean International	27%
Carnival Cruise Line	38%

13. Pension Plan

Substantially all of the Authority's employees are covered by the Employee Retirement System of the Government of the U.S. Virgin Islands (the "System"), a cost sharing multiple-employer defined benefit pension plan. The System is a public employee retirement plan sponsored by the Government of the U.S. Virgin Islands that was created by Act No. 479, approved on June 24, 1959. The System became operative on October 1, 1959, at which date contributions by employees and the Government commenced. Substantially all full-time employees of the Government and its related agencies are covered by the System.

The System provides for retirement, death and disability benefits for employees and their dependents. The administrator of the System is responsible for its proper operation, subject to orders, resolutions and directives of a Board of Trustees. The governor of the U.S. Virgin Islands, with the approval of the Legislature, could change the required contributions from the employers and employees. Although the Government has not expressed any intent to terminate the Plan, it may do so at any time. In the event of termination of the Plan, the rights of all affected participants and beneficiaries to whom benefits have accrued under the Plan shall be non-forfeitable to the extent funded.

Government and members contributions are set by statute. The Government's required contribution is 17.5%. Required member contributions are 8% of the annual salary for regular employees, 9% for senators, 11% for judges, and 10% for certain employees covered by Act 5226. The Government's contributions, together with the members' contributions and the income of the System should theoretically be sufficient to provide adequate actuarially determined reserves to cover the payment of the annuities and benefits provided by the System.

13. Pension Plan (continued)

The Government's contractually required contributions, actual contributions made, and percentage contributed to the plan for the years ended September 30, 2011, 2010, and 2009 were as follows:

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2009	$167,000	$167,000	100%
2010	$171,000	$171,000	100%
2011	$167,000	$167,000	100%

The latest 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 System on an actuarial reserve, as required by law. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained from the System's Administrator.

14. Due to Government of the U.S. Virgin Islands

Due to Government of the U.S. Virgin Islands represents funds held by the Authority on behalf of the Government for the payment of construction projects and debt service payments. Due to Government of the U.S. Virgin Islands movement for the year ended September 30, 2011, is as follows:

	Debt Service Fund	Construction Fund
Beginning balance	$ 201,594,302	$ 246,793,083
Funds received for debt service	45,670,297	155,080,594
Debt service	(144,416,701)	(756,832)
Investment income (loss)	4,209,262	480,416
Issuance cost	(1,031,390)	(41,475)
Proceeds from the issuance of bonds and notes payable	–	160,856,449
Bank fees	(285,892)	–
Other income	–	28,944
Capital outlays (including reimbursements)	(822,559)	(111,313,466)
General and administrative expenses	–	(9,177)
Federal government reimbursements	403,601	–
Interfund transfers	68,832,290	(52,870,719)
Transfer of funds to the Government of the U.S. Virgin Islands	–	(167,966,489)
Transfers to Cruzan	–	(54,672,450)
Ending balance	$ 174,153,210	$ 175,608,878

15. Subsequent Events

On November 14, 2011, the Authority entered into a Property Tax Revenue Anticipation Note Loan Agreement. Under the terms of the Loan Agreement, the bank will loan the Authority up to $13,000,000. The purpose of the Revenue Anticipation Note (the "2011B Notes") is to provide a loan to the Government of the U.S. Virgin Islands to finance (i) payments made by the Government to government employees who elected to retire under the Retirement Incentive Program, (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 financing is provided under the 2011 Economic Stability Act enacted in July 2011 by the Government. The 2011B Notes have a term of five years, with an interest rate of 4.91% and a maturity date of December 15, 2016. After the five year term of the 2011B Notes, the loan will convert to a term loan not to exceed two years and secured by Gross Receipts tax revenue.

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. On January 25, 2012, Hovensa, LLC published an offer to repurchase the tax-exempt private activity bonds at a purchase price of $1,000 per $1,000 in aggregate principal amount, plus accrued but unpaid interest. At February 17, 2012, over 99% of the bonds were tendered leaving $230 thousand of aggregate liquidation amount outstanding.

On March 1, 2012, the Internal Revenue Service ("IRS") notified the Authority that it was conducting a random audit in connection with the $219,490,000 Virgin Islands Public Finance Authority Revenue Bonds (Gross Receipts Taxes Loan Note), Series 2006, issued on September 28, 2006 (the "Series 2006 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.

Proceeds of the Series 2012A Bonds were used, in part, to refund the remaining outstanding Series 1999A Bonds and, in part, to refund the Series 2010A Notes, both of which were initially issued for working capital purposes to address the Government's cash flow needs. The Government believes that the concerns raised by the IRS in connection with its analysis undertaken in respect of the Series 2006 Bonds are not present in connection with the analysis undertaken in respect of the Series 2012A Bonds. The Government is working with its counsel

15. Subsequent Events (continued)

to address the audit. The IRS has concluded that a portion of the Series 2006 Bonds that refunded the Series 1999A Bonds should not have been issued, on the basis that the Government had "available amounts" that could have been used to defease certain of the Series 1999A Bonds that were refunded. Discussions among the Authority, the Government and the IRS regarding this matter are ongoing as of the date hereof and the liability of the Authority is not known at this time.

On September 7, 2012, the Authority issued the Series 2012A Revenue Bonds, the proceeds of which amounted to $142,640,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Seventh Supplemental Indenture and the Series 2012 Loan Notes issued by the Government. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2012A Bonds were issued to: (i) finance various operating expenses and other obligations of the Government, (ii) fund the Series 2012A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2012A Bonds. The Series 2012A Bonds mature from 2022 to 2032 at an interest rate of 3.80% to 4.50%.

On October 1, 2012, the Authority converted the Series 2009A Notes to the 2012A Loan Note. The notes have a term of five years, maturing on October 1, 2017 with interest of 300 points above the J.P. Morgan Chase Prime Rate, or 6.25%, whichever is higher.

On November 9, 2012, PFA issued the 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.

On December 17, 2012, PFA issued the Series 2012C Revenue Bonds amounting to $35.1 million to (i) finance capital projects, (ii) fund debt service on the 2012C Bonds, and (iii) pay the costs and expenses of issuing the 2012C Bonds.

15. Subsequent Events (continued)

In January, 2013, the extension on the rum excise tax at a rate of $13.25 per proof gallon was approved by the US Congress through December 31, 2013, and made retroactive to January 1, 2012.

On February 12, 2013, Moody's Investors Service withdrew the ratings on the U.S. Virgin Islands general obligation gross receipts tax debt, issued through PFA, due to the lack of sufficient financial and operating information. The territory released its fiscal 2010 audited financial statements on November 30, 2012, 26 months after the end of the fiscal year.

During fiscal year 2012, an entire new management team was brought on board to viNGN. Past purchases of equipment and materials by viNGN were reviewed and changes were made to the design of the optical network. As a consequence, assets described in Note 5 related to the NOC/DC/HQ building were written down.

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 the Financial Statements Performed in Accordance with *Government Auditing Standards*

The Board of Directors of
The USVI Public Finance Authority

We have audited the financial statements of the Virgin Islands Public Finance Authority (the Authority) as of and for the year ended September 30, 2011, and have issued our report thereon dated May 30, 2013. 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.

Internal control over financial reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be 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 in this report, we identified certain deficiencies in internal control 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 misstatement on a timely basis. A *material weakness* is a deficiency, or a 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 the deficiencies describe below to be material weaknesses.

2011-1 Financial Statement Close Process of the Virgin Islands Next Generation Network (viNGN)

Criteria

A fundamental element of a sound system of internal controls is an effective financial statement close process. Such process is essential in enabling viNGN to prepare timely and accurate financial statements. This process helps to ensure that all financial transactions are properly recorded, appropriately supported and subjected to supervisory review. The financial statement close process begins with accounting data recorded in the Company's general ledger and culminates in the preparation of the Company's financial statements, including identification and documentation of the relevant disclosures that are required under generally accepted accounting principles.

Condition

During our audit, we noted deficiencies in the Company's financial statement close process, including the following:

- Multiple audit/post-closing entries that were not initially identified by the Company's internal controls were required to properly record expense activity, cash activity, capital assets activity, and certain liabilities. These entries were considered material to the financial statements.

- The compilation of financial data and reconciliation processes are not completed in a timely manner. The lack of procedures and controls in these areas result in inefficiencies during the financial statements preparation process.

- The accounting and financial reporting operations, are not able to detect or prevent accounting errors effectively nor efficiently which results in multiple audit adjustments.

Cause

The internal controls over the financial statement close process were not effective for fiscal year 2011.

Effect

There were numerous post-closing and audit adjustments that were recorded by the Company as noted above.

Recommendations

Management should improve the annual closing process, including more effective monitoring controls over financial information. All general ledger accounts should be supported by reconciliations, rollforward schedules and other appropriate documentation which are timely reviewed at two levels, and evidenced by supervisory and signature approval. Journal entries should be supported by complete documentation and timely reviewed as well as reviewing the processing of journal entries at year-end.

All accounting judgments should also be properly supported and reviewed. In reviewing and developing the closing process the Company should ensure that it has sufficient accounting personnel with the appropriate experience and training to effectively perform the financial statement close process. Additionally, key accounting personnel needs to review the draft financial statements for correctness of accounting presentation and disclosure prior to its presentation to the auditors.

2011-2 Financial Statement Close Process of the West Indian Corporation (WICO)

Criteria

A fundamental element of a sound system of internal controls is an effective financial statement close process. Such process is essential in enabling WICO to prepare timely and accurate financial statements. This process helps to ensure that all financial transactions are properly recorded, appropriately supported and subjected to supervisory review. The financial statement close process begins with accounting data recorded in the Company's general ledger and culminates in the preparation of the Company's financial statements, including identification and documentation of the relevant disclosures that are required under generally accepted accounting principles.

Condition

During our audit, we noted that a material adjustment that was not initially identified by the Company's internal controls was required to properly record expense activity and fuel inventory balance at year end. The entry was considered material to the financial statements. Below is a summary of the adjustment.

- During fiscal year 2011, the Company did not keep accurate records regarding its fuel inventory balance. The Company's management was not able to provide supporting documentation for the balance on books as of its fiscal year-end; therefore, the account was reconciled and management agreed to an adjustment.

Cause

The internal controls over the financial statement close process were not effective.

Effect

The lack of adequate internal controls caused a material misstatement to be unidentified by the Company's management.

Recommendations

Management should improve the annual closing process, including more effective monitoring controls over financial information. All general ledger accounts should be supported by reconciliations, rollforward schedules and other appropriate documentation which are timely reviewed at two levels, and evidenced by supervisory and signature approval. Journal entries should be supported by complete documentation and timely reviewed as well as reviewing the processing of journal entries at year-end.

In reviewing and developing the closing process the Company should ensure that it has sufficient accounting personnel with the appropriate experience and training to effectively perform the financial statement close process. An effective control environment requires that those in charge of governance monitor the accounting and financial reporting functions effectively. By implementing these recommendations the monitoring of the accounting and financial reporting activities of the Company will be reinforced.

Compliance and other matters

As part of obtaining reasonable assurance about whether Authority'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Authority's Board of Directors, 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

May 30, 2013

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

Ernst & Young refers to the global organization of member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. This Report has been prepared by Ernst & Young LLP, a client serving member firm located in the United States.