FINANCIAL STATEMENTS AND OMB CIRCULAR A-133 REPORT ON FEDERAL FINANCIAL ASSISTANCE PROGRAMS

Virgin Islands Public Finance Authority
Year Ended September 30, 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

Virgin Islands Public Finance Authority

Financial Statements and
OMB Circular A-133 Report on
Federal Financial Assistance Programs

Year Ended September 30, 2012

Contents

Financial Statements

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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, 2012, 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, 2012, 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 April 14, 2014, 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.

Accounting principles generally accepted in the United States require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ernst + Young LLP

April 14, 2014

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, 2012.

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, and 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 73 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 2012 and 2011:

(In thousands)	2012	2011
Condensed information from Statement of Net Assets		
Current assets	**$ 427,600**	$ 509,514
Non-current assets excluding capital assets	**2,120,224**	1,845,803
Capital assets (net of depreciation)	**66,178**	52,831
Total assets	**2,614,002**	2,408,148
Current liabilities	**109,382**	137,089
Long-term portion of bonds outstanding	**1,798,917**	1,700,294
Other liabilities	**656,974**	521,216
Total liabilities	**2,565,273**	2,358,599
Net assets:		
Invested in capital assets, net of debt	**30,384**	23,625
Restricted	**27,083**	19,510
Unrestricted	**(8,738)**	6,414
Total net assets	**$ 48,729**	$ 49,549
Condensed information from Statement of Revenue, Expenses and Changes in Net Assets		
Operating revenues	**11,107**	$ 9,655
Operating expenses	**(21,566)**	(17,622)
Operating income (loss)	**(10,459)**	(7,967)
Non-operating income and other changes in net assets	**9,638**	(424)
Change in net assets	**$ (821)**	$ (8,391)

Non-current assets, excluding capital assets, increased by $274 million in 2012 due to bond issuances and receipt of matching fund revenues, and decreased by $56 million in 2011 due to capital outlays on behalf of the Government of the US Virgin Islands.

The capital assets increase of $13.4 million and $5.4 million from 2011 to 2012 and 2010 to 2011, respectively, is mainly due to the build-out of the viNGN optical fiber network.

Long-term portion of bonds outstanding increased by $99 million in 2012 mainly due to issuance of the Series 2012 A bonds in the amount of $143 million. Long-term portion of bonds outstanding decreased by $47 million in 2011 mainly due to repayments of debt service principal due on October 1, 2010 in the amount of $24 million.

The net assets of the Authority decreased by $821 thousand during fiscal year 2012. The decrease in 2012 is mainly due to operating expenses in excess of revenues from bond and investment management fees and federal grants. The net assets decrease of $8.4 million in 2011 is mainly due to a decrease in bond and investment management fees.

In 2012, operating revenues experienced an increase of $1.5 million which is mainly due to the management fees received in connection with the bonds and notes issued during the current fiscal year in the amount of $1.6 million. 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 2012 and 2011:

	WICO		King's Alley	
(In thousands)	**2012**	**2011**	**2012**	**2011**
Operating revenues	**$ 8,574**	$ 8,735	**$ 705**	$ 647
Operating expenses	**(7,545)**	(8,278)	**(929)**	(927)
Operating income (loss)	**1,029**	457	**(224)**	(280)
Nonoperating revenues	**73**	151	**1**	2
Nonoperating expenses	**(2,138)**	(2,211)	**–**	–
Nonoperating loss	**(2,065)**	(1,603)	**(223)**	(278)
Change in net assets	**$ (1,036)**	$ (1,603)	**$(223)**	$ (278)

WICO's operating revenues consist of agency fees charged to cruise lines and rental income. During fiscal year 2012, the decrease in operating revenues is due to a decrease in passenger arrivals.

King's Alley operating loss of $224 thousand in fiscal year 2012 is mainly due to depreciation of $481 thousand.

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 Port Authority.

In October, 2013, WICO finalized an agreement to refinance the Banco Popular loan, stated at $21.7 million at the end of fiscal year 2012. The refinancing creates additional capital to complete phase 1 projects.

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 2012 and 2011:

	Office of Economic Opportunity	
(In thousands)	**2012**	**2011**
Operating revenues	**$ –**	$ –
Operating expenses	**(961)**	(4)
Operating loss	**(961)**	(4)
Nonoperating revenues – Budgetary allocation	**307**	–
Nonoperating revenues – Federal Grant Revenue	**202**	734
Nonoperating revenues – Interest	**3**	–
Nonoperating expenses	**–**	–
Income before interfund transfer, payments on behalf of the Government of the U.S. Virgin Islands and federal grants	**(449)**	730
Payments on behalf of Government of the U.S. Virgin Islands	**–**	(16)
Budget Allocation	**585**	–
Federal grant expenditures	**–**	(887)
Change in net assets	**$ 136**	$ (173)

OEO's grant awards amounted to $202 thousand, in the fiscal year 2012. Operating expenses were $961 thousand in fiscal year 2012, consisted of grant expenditures not covered by grant guidelines or made as part of award matching requirements.

Broadband Initiative - viNGN

viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN) was incorporated on October 22, 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 year ended 2012.

	viNGN	
(In thousands)	**2012**	**2011**
Operating revenues	**$ –**	$ –
Operating expenses	**(4,751)**	(738)
Operating loss	**(4,751)**	(738)
Nonoperating revenues	**282**	17
Nonoperating income	**282**	17
Special item: impairment charges	**(364)**	(262)
Loss before capital contributions	**(4,833)**	(983)
Capital contributions from federal grants	**9,516**	–
Change in net assets	**$ 4,683**	$ (983)

During 2012, viNGN began build-out of the broadband fiber optic network utilizing American Recovery and Reinvestment Act (ARRA) federal grant awards.

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 2012 and 2011, were as follows:

(In thousands)	**Restricted Cash and Investments 2012**	**Restricted Cash and Investments 2011**
Investments under management	**$ 523,667**	$435,811
Other restricted cash, cash equivalents and investments	**1,951**	1,936
	$ 525,618	$437,747

DEBT ADMINISTRATION

At year end, the Authority had approximately $1.9 billion in bonds outstanding as follows.

(In thousands)

	Bonds Outstanding 9/30/2011	New Issuances	Debt Payments	Bonds Outstanding 9/30/2012
2012 Series	$ –	$ 142,640	$ –	$ 142,640
2010 Series	399,050	–	–	399,050
2009 Series "Cruzan"	38,640	–	–	38,640
2009 Series "R&R"	450,380	–	(565)	449,815
2009 Series "Diageo"	250,000	–	(29,650)	220,350
2006 Series	214,385	–	(2,705)	211,680
2004 Series	75,235	–	(3,805)	71,430
2003 Series	248,960	–	(3,635)	245,325
1999 Series	81,115	–	(6,950)	74,165
Total	$ 1,757,765	$ 142,640	$ (47,310)	$ 1,853,095

In September 2012, the Authority issued the 2012 Series A Bonds. The proceeds were loaned to the Government of the Virgin Islands to provide financing of various operating expenses and other obligations of the Government, (see Note 6).

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, 2012, defeased bonds outstanding from prior years amounted to $12.5 million (1989 Series).

Loans outstanding were as follows:

	Loans Outstanding 9/30/2011	*(In thousands)* New Issuances	Deb Payments	Loans Outstanding 9/30/2012
2011B RAN	$ –	$ 13,000	$ (2,860)	**$ 10,140**
2011 A BAN Broadband	32,235	–	(2,319)	**29,916**
2010 A1 & A2 BAN	131,400	–	–	**131,400**
2009 A TIR BAN	14,032	1,668	–	**15,700**
2009 A Revenue Loan Note	5,819	–	(1,553)	**4,266**
WICO	22,258	–	(494)	**21,764**
Total	$ 205,744	$ 14,668	$ (7,226)	**$ 213,186**

In November 2011, the Authority entered into the Property Tax Revenue Anticipation Note Loan agreement, Series 2011B. The purpose of the notes was to provide a loan to the Government of the Virgin Islands for the purposes of making payments to government employees who elected to retire under the Retirement Incentive Program.

In April 2011, the Authority entered into the 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, 2012, the Authority had drawn $131.4 million under the 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.

In June 2008, the West Indian Company, Inc. (WICO), refinanced its outstanding loans and obtained additional working capital of $2.3 million, increasing the loan facility to $23,500,000. WICO has guaranteed the notes and has pledged all leases and revenues to secure the loans.

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, gross receipts tax revenues, and real property tax revenues, as more fully described in Note 6 and 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 two private facilities. Gross receipts tax revenues are a tax on gross professional services and sales. Property tax revenues are a tax on assessed property values or incremental values in financing districts. Debt service payments of principal and interest from these revenue sources for the past year are as follows:

	Year Ending September 30	
(In thousands)	**2012**	**2011**
Excise rum tax	**$97,500**	$77,641
Gross receipts tax	**$54,731**	$48,339
Property tax	**$ 3,358**	$ –

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

Investment Performance and Agreements

The Authority investments include AAAm (S&P) and Aaa-mf (Moody's) rated money market funds, AA+ (S&P) and Aaa (Moody's) rated government securities, and A-1 (S&P) and P-2 (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, U.S. 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, 2012

Assets		
Current assets:		
Cash and cash equivalents	$	17,199,611
Restricted cash and cash equivalents		114,606,904
Restricted investments, at fair value		237,461,470
Receivables, net		1,102,630
Federal grant receivable		2,043,714
Restricted loans receivable - Government of the US Virgin Islands		54,362,347
Prepaid expenses and other assets		822,931
Total current assets		427,599,607
Noncurrent assets:		
Restricted investments, at fair value		173,549,569
Restricted loans receivable - Government of the US Virgin Islands		1,945,424,909
Bond issuance costs		1,249,648
Capital assets, net of depreciation and amortization		66,178,285
Total noncurrent assets		2,186,402,411
Total assets		2,614,002,018

(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, 2012

Liabilities		
Current liabilities:		
Accrued expenses and other liabilities	$	8,423,729
Loans payable related to capital assets		532,988
Notes payable		9,632,347
Deferred revenue		1,576
Bonds payable		44,730,000
Interest payable		46,061,421
Total current liabilities		109,382,061
Noncurrent liabilities:		
Loans payable related to capital assets		21,231,149
Notes payable		181,789,909
Bonds payable (including a reduction of $9,448,115 in 2012, due to deferred amounts on defeased and refunded bonds)		1,798,916,885
Due to Government of the US Virgin Islands - construction funds		348,004,106
Due to Government of the US Virgin Islands - debt service funds		105,949,289
Total noncurrent liabilities		2,455,891,338
Total liabilities		2,565,273,399
Net assets		
Invested in capital assets, net of related debt		30,383,479
Restricted		27,083,060
Unrestricted		(8,737,920)
Total net assets	$	48,728,619

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 September 30, 2012

Operating revenues:	
Charges for services	$ 9,279,024
Other operating revenues	1,827,912
Total operating revenues	11,106,936
Operating expenses:	
General and administrative	18,547,031
Depreciation and amortization	2,926,610
Impairment charges - WICO	91,875
Total operating expenses	21,565,516
Operating loss	(10,458,580)
Nonoperating revenues (expenses):	
Interest income:	
Cash, cash equivalents and investments	4,757,461
Loans receivable	101,546,879
Budgetary allocation	3,807,376
Federal grants	470,502
Amortization of bond discount and issuance costs	(4,467,782)
Amortization of deferred amount	(924,530)
Bank commitment fees	(787,500)
Interest expense	(102,928,467)
Loss on sale of fixed assets	(43,315)
Contribution to the Government of the US Virgin Islands	(700,000)
Total nonoperating loss	730,624
Special items	
Impairment charges - viNGN	(363,930)
Loss before payments on behalf of the Government of the US Virgin Islands, contributions and grants	(10,091,886)
Payments on behalf of the Government of the US Virgin Islands	(245,253)
Capital contributions from Federal Grants	9,516,402
Changes in net assets	(820,737)
Total net assets at beginning of year	49,549,356
Total net assets at end of year	$ 48,728,619

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 September 30, 2012

Operating activities	
Cash received from customers	$ 9,204,237
Cash paid to suppliers and employees for services	(19,201,221)
Other cash receipts	11,249
Net cash used in operating activities	(9,985,735)
Investing activities	
Purchases of investments	(680,191,056)
Interest received on cash, cash equivalents and investments	1,194,955
Investment maturities and sales	605,119,064
Net cash used in investing activities	(73,877,037)
Capital and related financing activities	
Proceeds from the sale of property and equipment	13,000
Acquisition of property and equipment	(16,934,877)
Capital contribution-federal grants	7,701,120
Interest payment on long-term debt related to capital assets	(1,381,587)
Principal payments on loans payable related to capital assets	(493,340)
Net cash used in capital and related financing activities	(11,095,684)
Noncapital financing activities	
Funds received for debt service	310,100,107
Contributions to Cruzan	(33,546,075)
Contributions to Diageo	(23,137,136)
Bank and other fees	(837,034)
Proceeds from issuance of bonds and notes payable	91,735,532
Budgetary allocation	3,807,376
Interest paid on bonds and notes payable	(98,586,061)
Federal grants	242,070
Payment of issuance costs	(969,686)
Transfer to the Government of the US Virgin Islands	(55,200,659)
Principal payments on bonds and notes payable	(54,042,292)
Payments on behalf of Government of the US Virgin Islands	(37,900,049)
Net cash provided by noncapital financing activities	101,666,093
Net increase in cash, cash equivalents and restricted cash	6,707,637
Cash, cash equivalents and restricted cash at beginning of year	125,098,878
Cash, cash equivalents and restricted cash at end of year	$ 131,806,515

(Continued)

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

Statements of Cash Flows (continued)

Year Ended September 30, 2012

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (10,458,580)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:	
Provision for doubtful accounts	164,320
Depreciation and amortization	2,926,610
Impairment of capital assets - WICO	91,875
Changes in operating assets and liabilities that increase (decrease) cash:	
Receivables	(1,903,449)
Accrued expenses and other liabilities	(742,437)
Prepaid expenses and other assets	(76,074)
Customer deposits	12,000
Total adjustments	472,845
Net cash used in operating activities	$ (9,985,735)

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 U.S. 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 US generally accepted accounting principles (US 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 link, 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 22, 2010, and its articles of incorporation were duly filed with the Office of the Lieutenant Governor of the US 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 US Government and its agencies obligations maturing within three months and collateralized by US 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 US Government, the US 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)

Investments (continued)

Current investments include shares or interests in money-market funds, short-term U.S. Government and its agencies obligations, and investment agreements which mature in three months or less and are not designated for payment of current debt. Long-term investments are funds held in debt service reserve accounts not intended to convert to cash in the next fiscal year.

Bonds Payable

Bonds payable managed by the Authority are as follows:

> *Series 2012 A Revenue Bonds:* The proceeds of the 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.
>
> *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.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Bonds Payable (continued)

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.

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.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Bonds Payable (continued)

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.

Payments on Behalf of the Government of the US Virgin Islands

Payments on behalf of the Government of the Virgin Islands for the fiscal year ended September 30, 2012, include payments for capital projects.

During the fiscal year ended September 30, 2012, the following amounts were disbursed and reported as a reduction of Restricted Assets held for the Government of the US Virgin Islands in the statement of net assets and as payments on behalf of the Government of the US Virgin Islands in the statement of cash flows.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Payments on Behalf of the Government of the US Virgin Islands (continued)

Funding source	2012
2009 A1, A2, B, C R&R Bond	$ 11,592,440
2006 Bond	1,943,078
2004 Bond	4,483,714
2003 Bond	3,850,289
2011 Broadband BAN	11,515,870
2009 TIF BAN	1,848,098
Administrative funds	2,567,805
	$ 37,801,294

During the fiscal year ended September 30, 2012, there was $245 thousand, of capital expenditures disbursed from unrestricted cash related to the 1992 Revenue bonds. The disbursements are recorded as payments on behalf of the Government of the US Virgin Islands in the statement of revenues, expenses and changes in net assets.

During the fiscal year ended September 30, 2012, viNGN, as subrecipient of Federal awards to the Office of Economic Opportunity, made reimbursable expenditures of $9.7 million (see Note 9) and received federal grant reimbursements of $7.7 million.

During the fiscal year ended September 30, 2012, the Office of Economic Opportunity (OEO) received federal grant reimbursements of $202 thousand.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

During the fiscal year ended September 30, 2012, the West Indian Company Inc. received federal grant reimbursements of $40 thousand.

During the fiscal year ended September 30, 2012 the Authority charged the Government of the Virgin Islands fees amounting to $1.6 million for its investment and bond management services.

During the fiscal year ended September 30, 2012, the Authority charged $75,000 to Tobacco Settlement Financing Corporation for annual investment and bond management services.

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 US 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
Intangible assets	15

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Capital Assets (continued)

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*. Impairment charges for the West Indian Company and viNGN for the fiscal year ended September 30, 2012 are included in the statement of revenues, expenses and changes in net assets.

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, 2012, the Authority's operating budget of $7.1 million included $3.5 million of budgetary allocations from excess matching funds for administrative operations and $245 thousand for the Office of Economic Opportunity from unrestricted 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.

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

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.
>
> *Cash and cash equivalents and due to/from the Government of US 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.

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	2014
69	Government Combinations and Disposals of Government Operations	2015
68	Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27	2015
67	Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25	2014
66	Technical Corrections—2012	2014
65	Items Previously Reported as Assets and Liabilities	2014
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	2013

2. Cash and Cash Equivalents

Cash and cash equivalents, segregated by category at September 30, 2012, is as follows:

	Bank Balance	Carrying Amount
2012		
Restricted	$115,029,271	$114,606,904
Unrestricted	17,377,014	17,199,611
	$132,406,285	$131,806,515

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.

At September 30, 2012, $95,937,509 or 72.5% of the Authority's deposits in banks were held at Bank of New York, $34,415,813 or 26% were held at Banco Popular de Puerto Rico, and $2,052,763 or 1.5% were held at First Bank Puerto Rico. Petty Cash of $200 was held 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 2012 Bond Series A, Series 2011B Revenue Anticipation Note, 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, 2012, were as follows:

	Debt Service	Construction Funds	Project Funds	Total
2012 Series A & B Revenue Bonds	$ 16,579,496	$ 60,000,000	$ –	$ 76,579,496
2010 Series A & B Revenue Bonds	39,790,481	–	–	39,790,481
2009 Series A Bonds (Cruzan)	2,795,338	39,694	–	2,835,032
2009 Series A1, A2, B, C Revenue & Refunding Bonds	47,013,262	18,562,408	–	65,575,670
2009 Series A Bonds (Diageo)	23,344,894	901,689	–	24,246,583
2006 Series Bonds	1,091,160	1,110,195	–	2,201,355
2004 Series A Bonds	7,640,252	7,948,692	–	15,588,944
2003 Series A Revenue Bonds	1,365,586	12,288,529	–	13,654,115
1999 Series A Revenue Bonds	42,871,213	–	–	42,871,213
1998 Series A Revenue Bonds	117,871,905	–	–	117,871,905
Subtotal Bonds	300,363,587	100,851,207	–	401,214,794
2011 A Broadband Anticipation Notes	635,504	–	7,909,427	8,544,931
2010 A Bond Anticipation Notes	459,002	–	–	459,002
2009 A TIR Bond Anticipation Notes	81,771	–	248,602	330,373
2009 Notes	461,939	–	–	461,939
Subtotal Notes	1,638,216	–	8,158,029	9,796,245
Total Bonds and Notes	$ 302,001,803	$ 100,851,207	$ 8,158,029	$ 411,011,039

3. Restricted Investments (continued)

Restricted investments, categorized by investment type, and weighted average maturity, at September 30, 2012, is as follows:

	2012	
	Fair Value	**Weighted Average Maturity *(Years)***
Money Market Funds	$ 335,864,520	
Portfolio investements:		
Commercial paper	39,142,086	0.003
Government agency notes	36,004,433	0.55
Total fair value	75,146,519	0.26
Total investments	$ 411,011,039	

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, 2012, 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-1 by Standard & Poor’s and P-2 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, 2012, more than 5% of the Authority's investments and restricted cash were invested in: Goldman Financial Square Money Market No. 524 (46.86%), Federated Government Obligation Fund #5 (18.63%), Silver Tower FDG LLC (9.52%), Goldman Financial Square Money Market No. 474 (7.11%), and Invesco Money Market (6.49%).

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, 2012, 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 2012 Bond Series A, 2010 Bond Series A & B, 2009 Bond Series (Cruzan), 2009 Bond Series A1, A2, B & C, 2009 Bond Series A (Diageo), and the 2004 Bond Series A 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 Series 2011 A Broadband Bond Anticipation Notes, Series 2010 A Bond Anticipation Notes, Series 2009 A 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 Notes 6 and 8).

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)

The Authority loaned the proceeds of the Series 2011B Revenue Anticipation Notes to the Government of the Virgin Islands. The loans, which are secured with pledged property taxes collected for tax years up to and including 2005 pursuant to Title 3, Section 31 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable (see Note 8).

On September 30, 2012, the Government of the Virgin Islands advanced loan payments due on October 1, 2012. A summary of loan payments by associated bond series follows:

Bond Series	**Payment**
2010 A/B Bonds	$ 1,990,000
2009 Cruzan Bonds	585,000
2009 A1, A2, B & C Bonds	24,145,000
2006 Bonds	2,805,000
2004 Bonds	3,995,000
2003 Bonds	3,815,000
1999 Bonds	7,395,000
	$44,730,000

5. Capital Assets

	Balance 9/30/2011	**Additions**	**Impairment/ Disposal**	**Transfers**	**Balance 9/30/2012**
Land	$ 5,763,178	$ –	$ –	$ –	$ 5,763,178
Buildings and building improvements	60,094,234	348,997	(149,484)	996,601	61,290,348
Personal property and equipment	5,268,015	737,446	(719,091)	–	5,286,370
Intangible assets	–	8,064,000	–	–	8,064,000
Total	71,125,427	9,150,443	(868,575)	996,601	80,403,896
Less accumulated depreciation	(23,680,226)	(2,471,713)	369,455	–	(25,782,484)
Less accumulated amortization	–	(454,896)	–	–	(454,896)
	47,445,201	6,223,834	(499,120)	996,601	54,166,516
Construction in progress	5,385,772	7,622,598	–	(996,601)	12,011,769
Total capital assets, net	$ 52,830,973	$ 13,846,432	$ (499,120)	$ –	$ 66,178,285

5. Capital Assets (continued)

During the fiscal year ended September 30, 2012, The West Indian Company (WICO) wrote-off $91,875 of costs related to the damages of a water tank, and viNGN wrote-down $358,272 in unusable heavy equipment and $5,658 in building improvements.

6. Bonds Payable

A summary of bond activity for the year ended September 30, 2012, follows (in thousands):

	Bonds Outstanding 9/30/2011	New Issuances	Debt Payments	Bonds Outstanding 9/30/2012
	(In thousands)			
2012 Series	$ –	$ 142,640	$ –	$ 142,640
2010 Series	399,050	–	–	399,050
2009 Series "Cruzan"	38,640	–	(565)	38,075
2009 Series "R&R"	450,380	–	(29,650)	420,730
2009 Series "Diageo"	250,000	–	–	250,000
2006 Series	214,385	–	(2,705)	211,680
2004 Series	75,235	–	(3,805)	71,430
2003 Series	248,960	–	(3,635)	245,325
1999 Series	81,115	–	(6,950)	74,165
Total	$ 1,757,765	$ 142,640	$ (47,310)	$ 1,853,095

6. Bonds Payable (continued)

Bonds payable at September 30, 2012, in which federal arbitrage regulations apply, are comprised of the following (in thousands):

	2012
2012 Series A Revenue Bonds Interest at 3.80% to 4.50%	$ 142,640
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%	38,075
2009 Series A1, A2, B & C Revenue & Refunding Bonds Interest at 3.00% to 5.00%	420,730
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%	211,680
2004 Series A Revenue Bonds Interest at 4.00% to 5.25%	71,430
2003 Series A Revenue Bonds Interest at 4.00% to 5.25%	245,325
1999 Series A Revenue Bonds Interest at 5.625% to 6.50%	74,165
Total bonds payable	1,853,095
Less: Current portion	(44,730)
Less: Deferred amount on defeased and refunded bonds	(9,448)
Long-term portion of bonds payable	$1,798,917

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 4.0% to 5.0%.

6. Bonds Payable (continued)

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%.

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.

6. Bonds Payable (continued)

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 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.

6. Bonds Payable (continued)

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%.

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.

6. Bonds Payable (continued)

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.

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. On October 1, 2010, the defeased 1999 Series A Bonds were redeemed in full in the amount of $162,870,000.

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, 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.

6. Bonds Payable (continued)

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

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, 2012, $12,515,000 of defeased bonds was outstanding.

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

Pledged Funds

The Government has pledged 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.

6. Bonds Payable (continued)

Pledged Funds (continued)

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.

Interest on Bonds

Interest on the 2012 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 2012 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 2010 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 2012 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 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.

6. Bonds Payable (continued)

Interest on Bonds (continued)

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.

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.

6. Bonds Payable (continued)

Interest on Bonds (continued)

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.

Interest expense related to bonds payable during the fiscal year ended September 30, 2012, is as follows (in thousands).

2010 Series A & B Revenue Bonds	$ 20,021
2009 Series A Revenue Bonds (Cruzan)	2,218
2009 Series A1,A2, B, C Revenue Bonds	20,819
2009 Series A Revenue Bonds (Diageo)	16,703
2006 Series Revenue Bonds	10,262
2004 Series A Revenue Bonds	3,719
2003 Series A Revenue Bonds	12,357
1999 Series Bonds	4,728
	90,827
Other interest expense mainly related to loans and notes payable outstanding	12,101
Total	$102,928

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2012, for the Series 2012 A Revenue Bonds are as follows (in thousands):

	Series 2012 A Bonds		
October 1	**Principal**	**Interest**	**Total**
2012	$ –	$ –	$ –
2013	–	7,396	7,396
2014	800	7,044	7,844
2015	825	7,044	7,869
2016	850	7,044	7,894
2017-2021	5,100	35,219	40,319
2022-2026	7,050	33,807	40,857
2027-2030	85,080	31,954	117,034
2032	42,935	6,316	49,251
	$ 142,640	$ 135,824	$ 278,464

Maturity dates and debt service requirements as of September 30, 2012, for the Series 2010 A & B Revenue Bonds are as follows (in thousands):

	Series 2010 A & B Bonds		
October 1	**Principal**	**Interest**	**Total**
2012	$ 1,990	$ 10,011	$ 12,001
2013	2,065	19,942	22,007
2014	2,155	19,859	22,014
2015	2,270	19,773	22,043
2016	2,395	19,659	22,054
2017-2021	15,100	96,729	111,829
2022-2026	183,630	88,256	271,886
2027-2030	189,445	37,387	226,832
	$ 399,050	$ 311,616	$ 710,666

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2012, for the Series 2010 A (Cruzan) Revenue Bonds are as follows (in thousands):

	Series 2009 A Bonds (Cruzan)		
October 1	**Principal**	**Interest**	**Total**
2012	$ 585	$ 1,109	$ 1,694
2013	605	2,201	2,806
2014	640	2,171	2,811
2015	670	2,139	2,809
2016	705	2,105	2,810
2017-2021	2,340	10,000	12,340
2022-2026	–	9,759	9,759
2027-2031	–	9,759	9,759
2032-2036	–	9,759	9,759
2037-2038	32,530	5,855	38,385
	$ 38,075	$ 54,857	$ 92,932

Maturity dates and debt service requirements as of September 30, 2012, 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**
2012	$ 24,145	$ 10,409	$ 34,554
2013	25,355	19,642	44,997
2014	26,460	18,407	44,867
2015	27,955	17,112	45,067
2016	29,260	15,740	45,000
2017-2021	96,750	57,284	154,034
2022-2026	132,975	36,407	169,382
2027-2031	14,705	12,987	27,692
2032-2036	–	10,781	10,781
2037	43,125	6,469	49,594
	$ 420,730	$ 205,238	$ 625,968

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2012, for the Series 2009 A (Diageo) Revenue Bonds are as follows (in thousands):

	Series 2009 A Bonds-Diageo		
October 1	**Principal**	**Interest**	**Total**
2012	$ –	$ 8,351	$ 8,351
2013	4,040	16,703	20,743
2014	4,290	16,703	20,993
2015	4,575	16,203	20,778
2016	4,890	16,203	21,093
2017-2021	30,075	77,465	107,540
2022-2026	41,930	72,142	114,072
2027-2031	58,440	60,497	118,937
2032-2036	81,815	43,031	124,846
2037	19,945	8,606	28,551
	$ 250,000	$ 335,904	$ 585,904

Maturity dates and debt service requirements as of September 30, 2012, for the Series 2006 Revenue Bonds are as follows (in thousands):

	Series 2006		
October 1	**Principal**	**Interest**	**Total**
2012	$ 2,805	$ 5,131	$ 7,936
2013	2,905	10,122	13,027
2014	3,015	9,977	12,992
2015	3,125	9,826	12,951
2016	3,240	9,670	12,910
2017-2021	42,620	45,347	87,967
2022-2026	90,945	28,911	119,856
2027-2029	63,025	5,889	68,914
	$ 211,680	$ 124,873	$ 336,553

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2012, for the Series 2004 A Revenue Bonds is as follows (in thousands):

	Series 2004 A		
October 1	**Principal**	**Interest**	**Total**
2012	$ 3,995	$ 1,860	$ 5,855
2013	4,195	3,519	7,714
2014	4,405	3,309	7,714
2015	4,625	3,089	7,714
2016	4,865	2,846	7,711
2017-2021	28,440	10,120	38,560
2022-2024	20,905	2,233	23,138
	$ 71,430	$ 26,976	$ 98,406

Maturity dates and debt service requirements as of September 30, 2012, for the Series 2003 A Revenue Bonds is as follows (in thousands):

	Series 2003 A		
October 1	**Principal**	**Interest**	**Total**
2012	$ 3,815	$ 6,179	$ 9,994
2013	4,010	12,166	16,176
2014	4,210	11,966	16,176
2015	4,420	11,755	16,175
2016	4,655	11,523	16,178
2017-2021	27,195	53,684	80,879
2022-2026	34,945	45,930	80,875
2027-2031	90,430	35,159	125,589
2032-2033	71,645	5,417	77,062
	$ 245,325	$ 193,779	$ 439,104

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2012, for the Series 1999 Revenue Bonds is as follows (in thousands):

	Series 1999		
October 1	**Principal**	**Interest**	**Total**
2012	$ 7,395	$ 2,364	$ 9,759
2013	7,865	4,257	12,122
2014	8,365	3,755	12,120
2015	8,900	3,222	12,122
2016	9,465	2,655	12,120
2017-2019	32,175	4,187	36,362
	$ 74,165	$ 20,440	$ 94,605

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

	Total Debt Services		
October 1	**Principal**	**Interest**	**Total**
2012	$ 44,730	$ 45,414	$ 90,144
2013	51,040	95,948	146,988
2014	54,340	93,191	147,531
2015	57,365	90,163	147,528
2016	60,325	87,445	147,770
2017-2021	279,795	390,035	669,830
2022-2026	512,380	317,445	829,825
2027-2031	501,125	193,632	694,757
2032-2036	196,395	75,304	271,699
2037-2039	95,600	20,930	116,530
	$ 1,853,095	$ 1,409,507	$3,262,602

6. Bonds Payable (continued)

Interest on Bonds (continued)

The 2012 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:

2012 Series A	**Price**
October 1, 2023 and thereafter	100%

The 2010 Series A & B Bond maturing after the dates below one 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%

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%

6. Bonds Payable (continued)

Interest on Bonds (continued)

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, 2020 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	Price
October 1, 2016 and thereafter	100%

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 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%

6. Bonds Payable (continued)

Interest on Bonds (continued)

The Authority may redeem the Series 1999 A Bonds at the respective redemption prices, expressed as a percentage of the principal amount redeemed as follows:

1999 Series A	**Price**
October 1, 2011 and thereafter	100%

Bonds as of the date of this report carry insured ratings of "BBB" and "BBB+" from Fitch Ratings and Standard & Poor's, respectively. Ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained from the respective rating agency.

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.

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.

7. Conduit Debt (continued)

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.

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.

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.

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.

8. Long-Term Loans and Notes

Long-term loans and notes outstanding were as follows:

	Bonds Outstanding 9/30/2011	*(In thousands)* New Issuance	Debt Payments	Bonds Outstanding 9/30/2012
2011 B RAN	$ –	$ 13,000	$ (2,860)	$ 10,140
2011 A BAN Broadband	32,235	–	(2,319)	29,916
2010 A1 & A2 BAN	131,400	–	–	131,400
2009 A TIR BAN	14,032	1,668	–	15,700
2009 A Revenue Loan Note	5,819	–	(1,553)	4,266
WICO	22,258	–	(494)	21,764
Total	$ 205,744	$ 14,668	$ (7,226)	$ 213,186

On November 14, 2011, the Authority entered into a Property Tax Revenue Anticipation Note Loan Agreement. Under the terms of the Loan Agreement, the Employees' Retirement System of the Government of the Virgin Islands 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 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 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. Interest accrued quarterly at a rate of 4.75%. The Series 2011A Notes reach maturity on April 12, 2012, at which time principal and accrued interest are due. On April 12, 2012, the Series 2011 A Bond Anticipation Notes converted to a term note with principal and interest payable monthly, with an interest rate of 6.25% and maturity date of April 29, 2017. 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, 2012, 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 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 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, 2012, 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 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

8. Long-Term Loans and Notes (continued)

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 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 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.

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, 2012, 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 $1,950,528.

8. Long-Term Loans and Notes (continued)

Over the last three years the 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 $1.61 million for the year ended September 30, 2012. Furthermore, these situations also caused a deficit in unrestricted net assets of approximately $3.02 million for the year ended September 30, 2012. The Company did comply, as of September 30, 2012, with a loan covenant requirement of minimum operating revenue thresholds. At September 30, 2012, 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.

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.

Pledged Funds

The Government has pledged Property Tax Revenue for 2005 tax years and prior to the timely payment of the principal and interest on the 2011B Loan. Surplus property tax receipts will be deposited into the Special Real Property Tax Receipts Fund account in accordance with the Loan Agreement.

The Government has pledged Island Crossings Incremental Tax Revenue and proceeds of the 2009 A Tax Increment Revenue Bond Anticipation Note to the timely payment of the principal and interest on the 2009 A Tax 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 quarter ended September 30, 2012, amounted to $1.4 million.

8. Long-Term Loans and Notes (continued)

Pledged Funds (continued)

Future minimum payments of principal for the five years subsequent to September 30, 2012, and thereafter are as follows:

Fiscal Year	2011 B Revenue Anticipation Note	2011 A Revenue Loan Note	2010 A1 & A2 Bond Anticipation Notes	2009 TIR Bond Anticipation Note	2009 A Revenue Loan Note	WICO	Total
2013	$ –	$ 5,818,431	$ –	$ 2,175,372	$ 1,638,544	$ 532,988	$ 10,165,335
2014	–	6,192,683	131,400,000	244,588	1,728,220	566,988	140,132,479
2015	–	6,591,008	–	260,461	899,262	603,158	8,353,889
2016	–	7,014,953	–	275,088	–	641,635	7,931,676
2017	10,140,546	4,298,609	–	295,212	–	682,566	15,416,933
Thereafter	–	–	–	12,449,279	–	18,736,802	31,186,081
	10,140,546	29,915,684	131,400,000	15,700,000	4,266,026	21,764,137	213,186,393
Less current debt	–	5,818,431	–	2,175,372	1,638,544	532,988	10,165,335
Total	$ 10,140,546	$ 24,097,253	$ 131,400,000	$ 13,524,628	$ 2,627,482	$ 21,231,149	$ 203,021,058

9. Federal Grants

On January 4, 2010, the Authority 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 (ARRA) for the development of a US Virgin Islands State Broadband Data and Development/ State Broadband Initiative project for a 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, 2012, the Authority had $60 thousand in reimbursable project expenses related to the project from the viNGN, the grant subrecipient.

On August 17, 2010, the Authority was awarded a federal grant in the amount of $58,888,469 from the US Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the US Virgin Islands Comprehensive Community Infrastructure project. The grant award period is from August 1, 2010 through July 31, 2013. On August 31, 2011, the Authority received communication from the U.S. 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

9. Federal Grants (continued)

to the US Department of Commerce on October 3, 2011, with supplemental information for the Corrective Action Plan submitted on October 10, 2011 and on October 14, 2011. On October 17, 2011, the Authority received approval of the Corrective Action Plan and lifting of the suspension. As of September 30, 2012, the Authority had $1.5 million in reimbursable project expenses related to the project from the viNGN, the grant subrecipient. During the period ended September 30, 2012, the Authority received $7.7 million in grant reimbursements.

On September 13, 2010, the Authority was awarded a federal grant in the amount of $2,535,082 from the US Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the US Virgin Islands Sustainable Broadband Adoption Program. The grant period is from September 1, 2010 through August 31, 2013. For the period ended September 30, 2012, the Authority had $96 thousand in reimbursable project expenses related to the project from the viNGN, the grant subrecipient.

On September 13, 2010, the Authority was awarded a federal grant in the amount of $3,021,867 from the US Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the US Virgin Islands Public Computer Centers project. The grant period is from September 1, 2010 through August 31, 2013. As of September 30, 2012, the Authority had $334 thousand in reimbursable project expenses related to the project from the viNGN, the grant subrecipient.

As of September 30, 2012, the Authority's Office of Economic Opportunity had no reimbursable expenses and received reimbursements of $202 thousand as a subrecipient of the ARRA formula grant to the Government of the U.S. Virgin Islands for its State Fiscal Stabilization Fund – Government Services Fund.

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 (25) years will 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 of any additional term.

9. Federal Grants (continued)

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 contribution 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:		
2013	$	70,000
2014		70,000
2015		70,000
2016		26,250
Total future minimum payments	$	236,250

11. Contingencies

The Authority has a loan receivable amounting to approximately $2.0 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 and Note 8 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the 2012 A, 2010 A & B, 2009 A (Cruzan), 2009 A1, A2, B & C, 2009A (Diageo), 2006, 2004A, 2003, and 1999 Bonds and the Series 2011 B, 2011 A, 2010 A1 & A2, Series 2009A, 2009 TIR, and 2008 Notes.

11. Contingencies (continued)

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, 2012, the Authority had made outlays from the funds, net of interest earnings, of $4.97 million.

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 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. 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

11. Contingencies (continued)

Government had "available amounts" that could have been used to defease certain of the Series 1999A Bonds that were refunded. On August 21, 2013, the Authority resolved to settle with the IRS in the amount of $13,635,104, satisfying all liabilities related to the 2006 bond issuance (See Note 15). The liability is reported on the financial statements of the Government of the U.S. Virgin Islands.

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 to the Series 2006 Bonds are not present in connection with the analysis undertaken in respect to the Series 2012A Bonds. The Government is working with its counsel to address the audit.

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

The entire 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. In January 2013, the extension on the rum excise tax at a rate of $13.25 per proof gallon was approved by the U.S. Congress through December 31, 2013, and made retroactive to January 1, 2012. Rum production and exportation was by a single producer in 2011 (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, 2012, were as follows:

	2012
Royal Caribbean Cruise Line	**37%**
Carnival Cruise Line	**43%**

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 year ended September 30, 2012, is as follows:

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2010	$171,000	$171,000	100%
2011	$167,000	$167,000	100%
2012	$ 89,307	$ 89,307	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 US Virgin Islands

Due to Government of the US 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 US Virgin Islands movement for the year ended September 30, 2012, is as follows:

	FY 2012	
	Debt Service Fund	**Construction Fund**
Beginning balance	$ 174,153,210	$ 175,608,878
Funds received for debt service	54,179,827	255,920,280
Debt service	(144,610,578)	(805,542)
Investment income (loss)	12,982,284	237,824
Issuance cost	(2,396,086)	–
Proceeds from the issuance of bonds and notes payable	17,489,211	74,246,322
Bank fees	(8,600)	(30)
Other income	–	(68,091)
Capital outlays (including reimbursements)	(334,515)	(33,544,067)
General and administrative expenses	(35,730)	(3,781,586)
Interfund transfers	17,667,402	(31,063,148)
Transfer of funds to the Government of the U.S. Virgin Islands	–	(55,200,659)
Transfers to Rum Producers	(23,137,136)	(33,546,075)
Ending balance	$ 105,949,289	$ 348,004,106

15. Segment Information

The financial statements of the PFA contain one segment, The West Indian Company (WICO) that represents separate identifiable activities. This Company has debt outstanding, with a revenue stream pledged in support of the debt. In addition, the activities are required to be accounted for separately. WICO is wholly-owned port facility including a cruise ship pier, shopping mall and rental complex on the island of St. Thomas. WICO’s operating revenues consist of agency fees charged to cruise lines and rental income.

15. Segment Information (continued)

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 Port 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 $1.61 million for the year ended September 30, 2012. Furthermore, these situations also caused a deficit in unrestricted net assets of approximately $3.02 million for the year ended September 30, 2012. The Company did comply, as of September 30, 2012, with a loan covenant requirement of minimum operating revenue thresholds and 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.

In October, 2013, WICO finalized an agreement to refinance the Banco Popular loan, stated at $21.7 million at the end of fiscal year 2012. The refinancing creates additional capital to complete Phase 1 projects including the extension of the Company's dock, as well as other key capital improvements.

Condensed Statement of Net Assets Information:	**WICO 2012**
Total current assets	$ 4,464,996
Total other noncurrent assets	66,213
Capital assets, net	38,450,654
Total assets	$ 42,981,863
Total current liabilities	$ 5,537,859
Total current portion of long-term debt	532,988
Total noncurrent portion of long-term debt	21,231,149
Total liabilities	27,301,996
Invested in capital assets net of related debt	16,752,730
Restricted net assets	1,950,528
Unrestricted net assets	(3,023,391)
Total net assets	15,679,867
Total liabilities and net assets	$ 42,981,863

15. Segment Information (continued)

Condensed Statement of Revenues, Expenses and Changes in Net Assets Information:	**WICO 2012**
Operating revenues	$ 8,573,657
Depreciation	1,923,286
Operating expenses	5,621,139
Operating income	1,029,232
Nonoperating expenses	(1,365,506)
Contributions	(700,000)
Change in net assets	(1,036,274)
Beginning net assets	16,716,141
Ending net assets	$ 15,679,867

Condensed Statement of Cash Flow Information:

Net cash provided by (used in):	
Operating activities	$ 3,002,121
Noncapital activities	39,881
Capital and related financing activities	(3,965,998)
Investing activities	19,516
Net change in cash and cash equivalents	(904,480)
Cash and cash equivalents at beginning of year	3,962,588
Cash and cash equivalents at end of year	$ 3,058,108

16. Subsequent Events

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 20, 2012, the Authority issued the 2012 Series A and Series B Revenue and Refunding Bonds, the proceeds of which amounted to $228,805,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The Series 2012A Bonds were issued to (i) refund the outstanding Series 1999A Bonds, (ii) refund the outstanding Series 2010A Notes, (iii) pay the costs and expenses of issuing and delivering the Series 2012A Bonds, and (iv) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve required related to the Series 2012A Bonds. The Series 2012A Bonds mature from 2017 to 2032 at an interest rate of 2.25% to 5.0%. The Series 2012B Bonds were issued to (i) refinance the outstanding 2011A Note, which initially financed the Broadband Project, (ii) pay the costs and expenses of issuing and delivering the Series 2012B Bonds, and (iii) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve required related to the Series 2012B Bonds. The Series 2012B Bonds mature in 2027 at an interest rate of 5.25%.

On December 19, 2012, the Authority issued the 2012 Series C Revenue Bonds, the proceeds of which amounted to $35,115,000. These bonds are secured by the pledge of gross receipts tax revenues, and are subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) finance all or a portion of the costs of certain capital projects, as authorized by the Virgin Islands Legislature in 2012 V.I. Act 7435 and 2012 V.I. Act 7454 and approved by the Government and the Authority by resolution, (ii) fund capitalized interest on a portion of the Series 2012C Bonds, and (iii) pay the costs and expenses of issuing and delivering the Series 2012C Bonds.

In January, 2013, the extension on the rum excise tax at a rate of $13.25 per proof gallon was approved by the U.S. 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 US Virgin Islands general obligation gross receipts tax debt, issued through the Authority, due to 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.

16. Subsequent Events (continued)

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. On August 21, 2013, the Authority resolved to settle with the IRS in the amount of $13,635,104, satisfying all liabilities related to the 2006 bond issuance. The liability was paid with funds from the 2013 Series A Revenue Bonds.

On March 29, 2013, the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Oceanic and Atmospheric Administration (NOAA) approved a budget modification/rebudget for the Authority's $58,888,469 American Recovery and Reinvestment Act of 2009 (ARRA)-funded Comprehensive Community Infrastructure (CCI) grant, which was subsequently modified with the approval of the reduction in the local match requirement from 33.29% to 20.00% and the related total program budget modification, effective August 2, 2013.

On May 14, 2013, the Authority issued the Subordinate Lien Revenue Notes, Series 2013A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $7,600,000 (the "Series 2013A Notes"). The proceeds of the Series 2013 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 2013 Notes. At June 30, 2013, the Authority had drawn $2,660,000 of loan funds.

In May 2013, a settlement claim was ruled in favor of WICO for a total of $2,700,000. This amount will be recorded for the fiscal year ended September 30, 2013.

On July 30, 2013, the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Oceanic and Atmospheric Administration (NOAA) approved a no-cost program extension for the implementation of the Authority's $58,888,469 American Recovery and Reinvestment Act of 2009 (ARRA)-funded Comprehensive Community Infrastructure (CCI) grant award from July 31, 2013 to December 31, 2013.

16. Subsequent Events (continued)

Effective August 2, 2013, the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Oceanic and Atmospheric Administration (NOAA) reduced the total local match requirement (for both in-kind and cash match) under the Authority's $58,888,469 American Recovery and Reinvestment Act of 2009 (ARRA)-funded Comprehensive Community Infrastructure (CCI) grant award from 33.29% to 20.00% of the total program budget, which is the minimum requirement per the Code of Federal Regulations for this grant award program. NTIA provided its initial approval of this reduced match requirement on January 4, 2013. The U.S. Department of Commerce's contribution did not change with this approval; however, the approval did include a total program budget modification/rebudget.

On August 19, 2013, the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Institute of Standards and Technology (NIST) approved the extension of the Authority's $3,021,867 American Recovery and Reinvestment Act of 2009 (ARRA)-funded Public Computer Centers (PCC) grant award from August 31, 2013 to September 30, 2014, effective August 20, 2013. The extension included a budget modification for viNGN, INC. d/b/a Virgin Islands Next Generation Network, a wholly owned subsidiary and the sole subrecipient.

On August 19, 2013, the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Institute of Standards and Technology (NIST) approved the extension of the Authority's $2,535,082 American Recovery and Reinvestment Act of 2009 (ARRA)-funded Sustainable Broadband Adoption (SBA) grant award from August 31, 2013 to September 30, 2014, effective August 20, 2013. The extension included a budget modification for viNGN, INC. d/b/a Virgin Islands Next Generation Network, a wholly owned subsidiary and the sole subrecipient.

On August 22, 2013, the Authority issued the Subordinate Lien Revenue Anticipation Notes (Virgin Islands Gross Receipts Taxes Loan Note) Series 2013B, in the aggregate amount of $40,000,000. The purpose of the Revenue Anticipation Note is to provide a loan to the Government of the U.S. Virgin Islands to finance (i) settlement of the IRS liability related to the 2006 Series Revenue Bonds audit, (ii) certain operating expenses of the Government, and (iii) loan issuance costs. On September 30, 2013, $40,000,000 of principal was repaid to the lender. In October, 2013, $20,000,000 was drawn against the loan.

16. Subsequent Events (continued)

On August 29, 2013, Fitch Ratings downgraded the Authority's debt rating from BBB to BBB- as a result of the downward recalculation of pledged Matching Funds Revenues available from Captain Morgan's rum export.

On September 19, 2013, the Authority issued the Series 2013A Revenue and Refunding Bonds, the proceeds of which amounted to $36,000,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Eighth Supplemental Indenture and the Series 2013 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 2013A Bonds were issued to: (i) refund a portion of the 2004A Bonds, 2009A1 Bonds, and 2009B Bonds, (ii) fund the Series 2013A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2013A Bonds. The Series 2013A Bonds mature from 2018 to 2024 at an interest rate of 5.0% to 5.25%.

On September 30, 2013, the Authority received the fiscal year 2014 advance rum excise tax payment (matching funds) from the Department of Interior. The advance payment was computed on a base rate of $10.50 per proof gallon of rum, resulting in a $71 million decrease from the projected advance payment of rum excise taxes. The current rate is $13.25 per proof gallon and is scheduled to expire on December 31, 2013. The Department of Interior noted that the extension of the $13.25 per proof gallon excise tax may be delayed due to Congressional budget hearings.

On October 17, 2013, the Authority issued the Series 2013B Revenue and Refunding Bonds, the proceeds of which amounted to $51,365,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Ninth Supplemental Indenture and the Series 2013 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 2013B Bonds were issued to: (i) refund a portion of the 2004A Bonds, (ii) fund the Series 2013A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2013A Bonds. The Series 2013A Bonds mature from 2015 to 2024 at an interest rate of 3.0% to 5.0%.

16. Subsequent Events (continued)

On October 18, 2013, WICO entered into a refinancing loan agreement with Banco Popular de Puerto Rico amounting to $28.5 million ("WICO loan"). Under the terms of the refinancing agreement WICO pledged: (i) operating revenues arising from the ship's agent business, and (ii) real property and improvements referred to as the "WICO Dock" including bulkhead and wharf, warehouses, office buildings, maintenance buildings and other facilities. The purpose of the WICO loan is to: (i) repay the existing loan with the bank amounting to $21.2 million, (ii) finance the construction and expansion of the WICO Dock and ship berthing facilities to accommodate larger cruise ships, and (iii) to fund costs associated with the issuance of the WICO loan. The WICO loan bears interest at 6.18%, and requires only interest payments during the first twelve months from the date of closing on the loan. Thereafter, the loan shall be repaid in fifty-nine (59) monthly installment payments of $187 thousand, with a sixtieth (60), final payment of outstanding principal.

On December 24, 2013, the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Oceanic and Atmospheric Administration (NOAA) approved a no-cost program extension for the implementation of the Authority's $58,888,469 American Recovery and Reinvestment Act of 2009 (ARRA)-funded Comprehensive Community Infrastructure (CCI) grant award from December 31, 2013 to June 30, 2014. This provides additional time through June 30, 2014 to complete all construction, network connections and network testing activities. The extension also provides additional time to complete the project by allowing reimbursement requests through September 30, 2014.

Other Report

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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, 2012, and have issued our report thereon dated April 14, 2014. 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 the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 deficiency described as 2012-001 in the accompanying schedule of findings and questioned costs to be a material weakness.

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.*

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the use of the Board of Directors, management and others within the Authority, 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

April 14, 2014

OBM Circular A-133 Report

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Report of Independent Auditors on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133 and on Schedule of Expenditures of Federal Awards

The Board of Directors of
Virgin Islands Public Finance Authority:

Compliance

We have audited Virgin Islands Public Finance Authority (the Authority)'s compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended September 30, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards,*) issued by the Comptroller General of the United States and OMB Circular A-133*, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2012. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 2012-002.

Internal control over compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as finding 2012-002. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

The Authority's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Authority's response and, accordingly, we express no opinion on the response.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Authority as of and for the year ended September 30, 2012, and have issued our report thereon dated April 14, 2014, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Governing Board, others within the entity, and 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

April 14, 2014

Virgin Islands Public Finance Authority

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Commerce			
Sub-Awards passed through from the Virgin Islands Public Finance Authority to subrecipient viNGN, INC.:			
ARRA - State Broadband Data and Development Program	ARRA - 11.558	N/A	$ 493,007
ARRA - Broadband Technology Opportunities Program	ARRA - 11.557	N/A	11,632,331
ARRA - Broadband Technology Opportunities Program	ARRA - 11.557	N/A	572,954
ARRA - Broadband Technology Opportunities Program	ARRA - 11.557	N/A	529,690
Total 11.557 Expenditures			12,734,974
Total U.S. Department of Commerce			13,227,981
U.S. Department of Education			
Pass-Through Program from the Government of the U.S. Virgin Islands - Office of the Governor:			
ARRA - State Fiscal Stabilization Fund - Government Services, Recovery Act	ARRA - 84.397	S397A090056	202,204
Total U.S. Department of Education			202,204
U.S. Department of Homeland Security			
Direct Award:			
ARRA - Port Security Grant Program	ARRA - 97.116	N/A	16,000
Total U.S. Department of Homeland Security			16,000
Total Expenditures of Federal Awards			**$ 13,446,185**

See accompanying notes to schedule of expenditures of federal awards.

Virgin Islands Public Finance Authority

Notes to Schedule of Expenditures of Federal Awards

September 30, 2012

1. Basis of Presentation

For purposes of complying with OMB Circular A-133 and the Single Audit Act Amendments of 1996, Virgin Islands Public Finance Authority (the Authority) is defined in a manner consistent with the entity defined in the basic financial statements as of and for the year ended September 30, 2012. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the Federal financial assistance programs administered by the Authority for the year ended September 30, 2012.

2. Basis of Accounting

The accompanying Schedule was prepared using the modified accrual basis of accounting whereby expenditures are generally recognized when incurred. Such expenses are recognized following the cost principles contained in OMB Circular A-87 where certain types of expenses are not allowable or are limited as to reimbursement.

3. Matching Costs

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule.

4. Subrecipients

The Authority provided Federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
ARRA - State Broadband Data and Development Program	ARRA-11.558	$ 493,007
ARRA - Broadband Technology Opportunities Program	ARRA-11.557	12,734,974
Total		$13,227,981

Virgin Islands Public Finance Authority

Schedule of Findings and Questioned Costs

Year Ended September 30, 2012

Part I - Summary of Auditor's Results

Internal Control over Financial Reporting

Material weaknesses identified?.. Yes

Significant deficiencies identified? .... None reported

Noncompliance material to financial statements noted?.. No

Federal Award Section

Internal control over major programs:

Material weaknesses identified?.. No

Significant deficiencies identified?... Yes

Identification of major programs and type of auditor's report issued on compliance for each major program:

CFDA Number	Major Program	Type of Report Issued on Compliance
ARRA-11.557	Broadband Technology Opportunities Program	Unqualified
ARRA-11.558	State Broadband Data and Development Program	Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133……………………………… Yes

Dollar threshold used to distinguish between Type A and Type B programs: … $403,386

Auditee qualified as low-risk auditee:………………………………………………… No

Part II - Financial Statement Findings Section

This section identifies significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

Part II - Financial Statement Findings Section (continued)

Finding Number: 2012-001

Topic
Financial Statements Close Process.

Category
Internal Controls.

Criteria
A fundamental element of a sound system of internal controls is an effective financial statement close process. Such process is essential in enabling organizations 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 Authority's general ledger and culminates in the preparation of the Authority'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 Authority's financial statement close process, including the following:

- Multiple audit/post-closing adjustments that were not initially identified by the Authority'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 were not completed in a timely manner. The lack of procedures and controls in these areas resulted in inefficiencies during the financial statements preparation process.

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

Part II - Financial Statement Findings Section (continued)

Finding Number: 2012-001 (continued)

Cause
The internal controls over the financial statement close process were not effective for fiscal year 2012.

Effect
There were numerous post-closing and audit adjustments that were recorded by the Authority 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 estimates should also be properly supported and reviewed. In reviewing and developing the closing process the Authority 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 financial reporting presentation and disclosure prior to its presentation to the auditors.

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 Authority may be enhanced and improved.

Management's Response
The Authority concurs with the auditor's findings and recommendations. Refer to separate Corrective Action Plan for further details

Part III – Federal Awards Findings and Questioned Costs

This section identifies the audit findings required to be reported by OMB Circular A-133, Section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving Federal awards that are material to a major program.

Part III – Federal Awards Findings and Questioned Costs (continued)

Finding Number: 2012-002

Program
ARRA-Broadband Technology Opportunities Program – CFDA No. 11.557
ARRA-State Broadband Data and Development Program- CFDA No.11.558

Category
Internal Control/Compliance.

Criteria
OMB Circular, Subpart C, Section .320 (a) establishes that the audit shall be completed and the data collection form described in paragraph (b) of this section and reporting package described in paragraph (c) of this section shall be submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit. Unless restricted by law or regulation, the auditee shall make copies available for public inspection. (b) Data Collection. (1) The auditee shall submit a data collection form which states whether the audit was completed in accordance with this part and provides information about the auditee, its Federal programs, and the results of the audit. The form shall be approved by OMB, available from the Federal clearinghouse designated by OMB, and include data elements similar to those presented in this paragraph. A senior level representative of the auditee (e.g., State controller, director of finance, chief executive officer, or chief financial officer) shall sign a statement to be included as part of the form certifying that: the auditee complied with the requirements of this part, the form was prepared in accordance with this part (and the instructions accompanying the form), and the information included in the form, in its entirety, are accurate and complete.

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

Questioned Costs
None.

Part III – Federal Awards Findings and Questioned Costs (continued)

Finding Number: 2012-002 (continued)

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

Effect
The lack of appropriate procedures to ensure a complete financial reporting package may cause delays in the singe audit issuance process thus affecting the ability to receive future grant awards.

Recommendation
The Authority should improve the procedures to ensure that the information required to complete the Single Audit is available for audit by the external auditors with sufficient time to complete and issue the reporting package and submit the required single audit report and data collection form within the required period.

Management's Response and Planned Corrective Actions
The Authority concurs with the auditor's findings and recommendations. Refer to separate Corrective Action Plan for further details.

Virgin Islands Public Finance Authority

Summary Schedule of Prior Audit Findings

September 30, 2012

Finding Number: 2011-001

CFDA Number	84.397
Name of Federal Program	ARRA-State Fiscal Stabilization Fund – Government Services
Type of Compliance Requirement	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Amount of Questioned Costs	Not Applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected.

Finding Number: 2011-002

CFDA Number	11.557
Name of Federal Program	ARRA-Broadband Technology Opportunities Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	Not Applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected during fiscal year 2012.

Finding Number: 2011-003

CFDA Number	11.557,11.558
Name of Federal Program	ARRA-Broadband Technology Opportunities Program ARRA-State Broadband Data and Development Grant Program
Type of Compliance Requirement	Matching
Amount of Questioned Costs	Not Applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected.

Finding Number: 2010-001

CFDA Number	11.558 and 84.397
Name of Federal Program	ARRA-State Broadband Data and Development Grant Program ARRA-State Fiscal Stabilization Fund – Government Services
Type of Compliance Requirement	Activities Allowed or Unallowed and Allowable Costs/Cost Principles
Amount of Questioned Costs	Not Applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected.

Finding Number: 2010-002

CFDA Number	11.558
Name of Federal Program	ARRA-State Broadband Data and Development Grant Program
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	Not Applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected.

Finding Number: 2010-003

CFDA Number	11.558
Name of Federal Program	ARRA-State Broadband Data and Development Grant Program
Type of Compliance Requirement	Matching
Amount of Questioned Costs	Not Applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected.

Finding Number: 2010-004 and 2010-005

CFDA Number	11.558, 84.397 and 97.116
Name of Federal Program	ARRA-State Broadband Data and Development Grant Program ARRA-State Fiscal Stabilization Fund – Government Services ARRA-Port Security Grant Program
Type of Compliance Requirement	Procurement and Suspension and Debarment
Amount of Questioned Costs	Not Applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected.

Finding Number: 2010-006

CFDA Number	11.558 and 97.116
Name of Federal Program	ARRA-State Broadband Data and Development Grant Program ARRA-Port Security Grant Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	Not Applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected.

Finding Number: 2010-007

CFDA Number	11.558, 84.397 and 97.116
Name of Federal Program	ARRA-State Broadband Data and Development Grant Program ARRA-State Fiscal Stabilization Fund – Government Services ARRA-Port Security Grant Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	Not Applicable
Contact Person Responsible for Corrective Action Plan	Executive Director
Status	Corrected.

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VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

Virgin Islands Public Finance Authority
Corrective Action Plan
For the Fiscal Year 2012 Single Audit

V · I · P · F · A

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

Corrective Action Plan

For the Fiscal Year 2012

Content

Virgin Islands Public Finance Authority

Management Response and Corrective Actions Taken

FY2012 Financial Statement Audit and A-133 Audit

Findings and Questioned Costs

Part II - Financial Statement Findings Section

Finding Number: 2012-001

Topic

Financial Statements Close Process.

Category

Internal Controls.

Management Response and Corrective Actions Taken

The management team concurs with the auditor's finding, regarding the internal controls over the financial statement closing process, which only applies to its wholly-owned subsidiary, viNGN, INC. d/b/a Virgin Islands Next Generation Network. The PFA and its other wholly-owned subsidiaries managed the closing of financial records in a timely manner, with minimal to no adjustments required.

The important difference with viNGN, INC. is that it is a start-up public corporation which was established as a subsidiary of the PFA, effective October 22, 2010, to implement four American Recovery and Reinvestment Act (ARRA)-funded grants and to manage the resulting middle mile, broadband network, as the PFA's core business operations have not included the implementation of federal grant programs or the management of any broadband networks.

For the three (3) ARRA grants with CFDA 11.557, as awarded by the U.S. Department of Commerce's National Telecommunications and Information Administration (NTIA) and co-managed by the National Oceanic and Atmospheric Administration (NOAA) and the National Institute of Standards and Technology (NIST) [i.e. the Comprehensive Community Infrastructure (CCI) grant, the Public Computer Centers (PCC) grant and the Sustainable Broadband Adoption (SBA) grant] and the ARRA-funded grant with CFDA 11.558 [i.e. the State Broadband Initiative (SBA)/State Broadband Data and Development (SBDD) grant], the PFA, the Prime Recipient, sub-awarded 100% of the grant awards to viNGN. Thus, viNGN is also the sole Sub-recipient of the PFA's above-referenced Broadband Technology Opportunities Program (BTOP) grant awards.

Findings and Questioned Costs

Part II - Financial Statement Findings Section

Finding Number: 2012-001 (continued)

Management Response and Corrective Actions Taken (continued)

As a start-up business unit within the PFA and subsequently as a separate legal entity, viNGN's management team maintained financial records; however, full implementation of a comprehensive financial system (i.e. the Microsoft Great Plains Dynamic system) did not begin until FY 2012 when viNGN was established as a separate legal entity. This financial system was selected, as it is the same system that is in operation at the PFA.

The core accounting and financial management modules of the Microsoft Great Plains Dynamics system at viNGN, INC. are fully implemented, with the data used to complete the PFA's and viNGN's FY 2011 and FY 2012 Financial Statement Audits and the OMB Circular A-133 Audits and to begin the FY 2013 Financial Statement Audits and the OMB Circular A-133 Audits.

The viNGN, INC. management team, in collaboration with the PFA's management team, also developed Standard Finance Operating Procedures that address accounting and other financial management procedures, including the closing process. These procedures are being refined, as needed, on an ongoing process. The U.S. Department of Commerce's National Telecommunication and Information Administration (NTIA), as Grantor Agency, received and reviewed documentation of these internal control procedures during a February 27, 2012 through March 2, 2012 Site Visit by team members from its National Telecommunications and Information Administration (NTIA) Compliance Office and Program Office, its National Oceanic and Atmospheric Administration (NOAA) and its National Institute of Standards and Technology (NIST); during a September 2012 Site Visit by team members from its NTIA Compliance Office and Program Office and NOAA who also represented NIST; during April 2013 by team members from its NTIA Compliance Office and Program Office, NOAA (telephonically only) and NIST; and during April 2014 by team members from its National Telecommunications and Information Administration (NTIA) Compliance Office and Program Office, its National Oceanic and Atmospheric Administration (NOAA) who were also representing NIST. More detailed documentation of financial management and other grants management policies and procedures that are tailored to the BTOP grants were also developed and submitted to NTIA, NOAA and NIST on October 3, 2011 and on October 10, 2011 and during each of the above-referenced Site Visits.

Findings and Questioned Costs

Part II - Financial Statement Findings Section

Finding Number: 2012-001 (continued)

Management Response and Corrective Actions Taken (continued)

Also, NTIA, NOAA and NIST staff members received and reviewed documentation of these internal control procedures with the Drawdown/Reimbursement packages that were submitted during FY 2012 and FY 2013 to date and during the Site Visits noted above. The NTIA, NOAA and NIST teams have confirmed their satisfaction with the financial management system, the internal control procedures, the documentation and the staff, which is confirmed by the $42.6MM+ in reimbursements received during FY 2012 and through April 2014.

Starting with the filing of the Quarter 4, CY 2011 ARRA 1512 reports (i.e. for FY 2012) and other required quarterly reports, accounting adjustments having been made to ensure more accurate reporting of expenditures across approved budget line items and for allowable expenditures. This occurred because, during October 2011, the PFA and viNGN hired additional staff to manage and/or to oversee viNGN's operations. The new management teams at PFA and at viNGN, refined the reporting procedures for the Broadband Technology Opportunities Program (BTOP) grants with CFDA 11.557 and CFDA 11.558 and made accounting adjustments/expenditure reclassifications and corrections to some of the previously-reported information. For example, as the new management teams worked to implement the Great Plains financial management system at viNGN, INC., the team reviewed past invoices, related contracts and/or purchase orders, procurement procedures and payments made, in an effort to ensure that they met all federal grant requirements and local match funding requirements. Some accounting adjustments were required as a result of those assessments. Responsible Sub-recipient project management, Sub-recipient financial management, Sub-recipient procurement and property management, and Prime Recipient staff members must now review invoices against underlying contracts, related purchase orders, grant project budgets and/or on-site progress assessments, depending upon their specific roles, and then process the payment thereof under the specific ARRA BTOP grant programs to minimize the number of accounting adjustments in the future.

Also, there were several accounting adjustments to account for the differences between the accounting method used for grant financial reporting on a quarterly basis and the accounting method used for financial statement audit reporting purposes. The cash basis of accounting is used for grant reporting, which is allowed and was done in order to remain consistent with previously-submitted reports and to ensure timely and the most accurate federal expenditures and match expenditure reporting. As a result, the general ledger for viNGN, INC. had to be adjusted to the accrual method for financial statement audit reporting purposes.

Findings and Questioned Costs

Part II - Financial Statement Findings Section

Finding Number: 2012-001 (continued)

Management Response and Corrective Actions Taken (continued)

The management teams of PFA and viNGN have worked to effectively implement and improve all accounting procedures through the hiring and on-the-job training of additional staff within PFA and a full complement of additional staff at viNGN to ensure that internal controls for effective accounting/financial management, financial management oversight, and reporting are in place. Active Sub-recipient monitoring by PFA and on-the-job training is provided to PFA and viNGN staff, in an effort to ensure that the appropriate practices are consistently implemented, and the management team at viNGN is committed to continuing to improve the financial statement closing processing during the coming year and thereafter, especially now that some of the above-described significant challenges have been addressed.

Findings and Questioned Costs

Part III – Federal Awards Findings and Questioned Costs

Finding Number: 2012-002

Program

ARRA-Broadband Technology Opportunities Program – CFDA No. 11.557
ARRA-State Broadband Data and Development Program – CFDA No.11.558

Category

Internal Control/Compliance.

Management Response and Corrective Actions Taken

The management team concurs with the auditor's finding.

The management team of PFA is working closely with its new team of auditors from Ernst & Young and with the management team's at all of its subsidiaries to ensure that its FY 2013 audits are issued as soon as possible during calendar year 2013 and otherwise in accordance with all grant, bond and other financial agreements and to ensure that its FY 2014 audits are issued in full accord with the requirements of all grant, bond and other financial agreements. Moreover, the management team at PFA continues to work with its subsidiaries to respond to audit findings and to ensure that appropriate and timely corrective actions are taken. Evidence of this can be seen in the corrective actions implemented since FY 2010 to address the FY 2010 and FY 2011 audit findings.

The delay with the issuance of the FY 2012 audit was largely due to the fact that the previous management team did not engage an auditor or auditors to complete the FY 2012 audit in a timely manner. Also, one of the PFA's wholly-owned subsidiaries, viNGN, INC., was in its start-up phase as a separate entity during FY 2012. Please also refer to the Management Response and Corrective Action Plan for Finding 2012-001 above.

Findings and Questioned Costs

Part III – Federal Awards Findings and Questioned Costs

Finding Number: 2012-002 (continued)

Management Response and Corrective Actions Taken (continued)

Further, at the start of the FY 2012 audit, PFA was informed of unexpected changes in assigned staffing within the auditor's financial audit teams and its A-133 audit teams from those that completed the FY 2011 audits. The audit teams were, thus, faced with a shortened timeframe to complete the various financial audits and the A-133 audits that were required. Audits of the PFA are complex, especially with the need for financial and A-133 audits of several entities. The audit of PFA has complexities, given the number of subsidiaries, the number of outstanding bond issuances, and the fact that the majority of the staff at PFA and at viNGN was just employed during FY 2012 or were otherwise not assigned to the implementation of the four broadband grant projects until FY 2012.

Given that the majority of the staff was newly-hired or newly-engaged management team members and support staff at the PFA and viNGN as of FY 2012, they were simultaneously focused on getting acclimated in their new positions and ensuring compliance with all federal government and local government regulations, policies and procedures. Delays in issuing the FY 2012 audits were exacerbated by the need for members of the new teams at PFA and viNGN to simultaneously implement the Microsoft Great Plains financial management system at viNGN, to address outstanding grant compliance matters under all of the grants with CFDA 11.557 and 11.558, to hire and train a full complement of new staff to implement all project activities under all of the grants with CFDA 11.557 and 11.558, and to accelerate all project activities under all of the grants with CFDA 11.557 and 11.558 [including contract negotiations, procurement activities, re-engaging with key contractors and key partners, and gaining an in depth understanding of its four BTOP programs, including the approved grant and local match budgets, the implementation schedules, the approved applications and the grant award agreements for each], all during FY 2012.

Now that some of the above-described significant challenges have been addressed, the management teams at the PFA and at each of its subsidiaries continue to be committed to improving the audit completion process during the coming year and thereafter.