BASIC FINANCIAL STATEMENTS

Government of the United States Virgin Islands
Year Ended September 30, 2013
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Government of the United States Virgin Islands

Basic Financial Statements

Year Ended September 30, 2013

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Building a better working world

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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units:

- The Virgin Islands Lottery (V.I. Lottery), a nonmajor enterprise fund, which represents 0.3% and 3.4%, respectively, of the assets, and revenues/additions of the aggregate remaining fund information, and 4.9%, 7.3%, and 18.7%, respectively, of the assets, net position, and revenue of the business-type activities. The V.I. Lottery net deficit represents $2.9 million of the $1.3 billion net position/fund balance of the aggregate remaining fund information.

- The Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 27.5%, 93.7%, and 37.2%, respectively, of the assets, net position/fund balance, and revenue of the aggregate remaining fund information.

- The Virgin Islands Port Authority (VIPA), the Virgin Islands Water and Power Authority (WAPA), The Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), and the Virgin Islands Housing Finance Authority (VIHFA), discretely-presented component units, which collectively represent 81.9%, 74.7%, and 84.7%, respectively, of the assets, net position, and revenue of the aggregate discretely-presented component units.

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

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. Because of the matters described in the Basis for Disclaimer of Opinion paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the Business-type Activities and the Aggregate Remaining Fund Information.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

Opinion Unit	Type of Report
Governmental Activities	Qualified
Business-type Activities	Disclaimer
General Fund	Unmodified
Debt Service Fund	Unmodified
Capital Projects Fund	Unmodified
West Indian Company Fund-enterprise Fund	Unmodified
Unemployment Insurance-enterprise Fund	Unmodified
Aggregate Remaining Fund Information	Disclaimer
Aggregate Discretely-presented Component Units	Qualified

Basis for Qualified Opinion on Aggregate Discretely-Presented Component Units
The report of other auditors on the 2013 financial statements of VIPTS, a discretely-presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $6.4 million were fairly stated.

The financial statements of WMA and the Virgin Islands Research and Technology Park (RTPark), nonmajor discretely-presented component units, have not been audited, and we were not engaged to audit the WMA and RTPark financial statements as part of our audit of the Government's basic financial statements. WMA and RTPark's financial activities are included in the Government's basic financial statements as a discretely-presented component units and represents 9%, 15%, and 6% of the assets, net position, and revenues, respectively, of the Government's aggregate discretely-presented component units.

Basis for Qualified Opinion on Governmental Activities
The Government did not maintain the requisite documentation to support its accrued retroactive liability of $195.3 million as of September 30, 2013 and for fiscal year 2013. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances in the governmental activities were required.

Qualified Opinion
In our opinion, based on our audit and the report of other auditors, except for the possible effects of the matters described in the Basis for Qualified Opinion on Aggregate Discretely-Presented Component Units paragraph, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate discretely-presented component units of the Government of the United States Virgin Islands at September 30, 2013, and the respective changes for financial position thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

Basis for Disclaimer Opinion on Business-type Activities and on the Aggregate Remaining Fund Information
The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the Business-type Activities and Aggregate Remaining Fund Information as of and for the year ended September 30, 2013 may have been affected by this condition.

The report of other auditors on the 2013 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because GERS maintained investments in a limited partnership valued at $41.2 million whose fair value has been estimated in the absence of a readily determinable fair value. GERS' estimate was based on information provided by the general partner of the limited partnership. The effect on the financial statements as a result of GERS' inability to document its procedures for determining fair value of the investment was not determinable.

Disclaimer of Opinion

Because of the significance of the matters discussed in the Basis for Disclaimer Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Business-type Activities and on the Aggregate Remaining Fund Information. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Government of the United States Virgin Islands, as of September 30, 2013, and the respective changes in financial position and budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

Restatement of the 2012 Aggregate Discretely-Presented Component Units

As described more fully in Note 18 to the financial statements, the beginning net position of the discretely-presented component units as of September 30, 2012, was restated by $17.1 million. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that management's discussion and analysis and the schedules of funding progress and employer contributions listed on pages 6 through 18 and 145 through 148 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2014, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control over financial reporting and compliance.

Ernst & Young LLP

June 30, 2014

Introduction

The following management's discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2013 and 2012.

Government-wide Financial Statements

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

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

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

> ***Governmental Activities –*** The activities in this section are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the primary government (PG) fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.
>
> ***Business-Type Activities –*** These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the (i) unemployment insurance program and (ii) the West Indian Company (WICO). Both of these programs operate with minimal assistance from the governmental activities of the Government.

Discretely-Presented Component Units **–** These are operations for which the Government has financial accountability even though they have certain independent qualities as well. For the most part, these entities operate similar to private sector businesses and the business-type activities described above. The Government's discretely-presented component units are presented in two categories, major and non-major. This separation is determined by the relative size of the entities' assets, liabilities, revenue, and expenses in relation to the total of all component units.

Fund Financial Statements

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

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

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

Governmental Funds

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

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

The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by the PFA on behalf of the Government.

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

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

Proprietary Funds

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

The West Indian Company (WICO) fund and the Unemployment Insurance Fund are major proprietary funds.

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

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

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

Fiduciary Funds

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

Financial Analysis of the Government as a Whole

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

The Government has initiated several actions to offset the negative impact of these financial challenges. The Government continues to promote environmentally safe industries into the USVI. The Government is participating in the American Recovery and Reinvestment Act, obtaining federal grants for energy, health, education and other construction projects, and other federal tax initiatives. To improve cash flow, the PG overhauled the property tax assessment and valuation systems of the Territory, proposed increases to locally assessed taxes, initiated tax compliance programs, and enacted expenditure reduction initiatives.

In fiscal year 2013, the Government issued the Series 2013A Revenue Refunding Bonds in the amount of $36 million, to provide a partial advance refunding of the Series 2009B Bonds, the Series 2004A Bonds, and the Series 2009A-1 Bonds. The Government issued the 2012 Series A and B Revenue and Refunding Bonds in the amount of $228.8 million to current refund the Series 1999A Bonds, the Series 2010A-1 an A-2 Notes, and the Series 2011A Note. The Government issued the Series 2012C Bonds in the amount of $35.1 million to finance energy projects in the Territory. The Government issued the Series 2013A Note in the amount of $2.6 million to purchase police vehicles, and the Series 2013B Note in the amount of $40 million for certain working capital and operating expenditures. The Government also borrowed $38 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

Financial Analysis of the Primary Government

Total assets of the PG as of September 30, 2013 and 2012, were approximately $1.9 billion, respectively, and total liabilities both years were approximately $3.3 billion.

As of September 30, 2013, the PG net position was a deficit of $1.3 billion that consisted of $278.7 million invested in capital assets, net of related debt; $289.6 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $1.9 billion. As of September 30, 2012, the PG net deficit of $1.4 billion consisted of $178.4 million invested in capital assets, net of related debt; $226.9 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $1.8 billion.

For the fiscal year ended September 30, 2013, the PG earned program and general revenue amounting to $1.3 billion and reported expenses of $1.3 billion, resulting in an increase in net deficit position of $1.2 million.

For the fiscal year ended September 30, 2012, the PG earned program and general revenue amounting to $1.2 billion and reported expenses of $1.4 billion, resulting in an increase in net deficit of $164.0 million.

Overall, revenue increased by approximately $46.1 million in fiscal 2013, when compared to fiscal 2012, mainly due to increases in tax revenues of $114.6 million, offset by decreases in charges for services of $19.9 million and in federal grants of $51.7 million. Increases in tax revenues mainly included increases in rum excise taxes (matching funds) of $59.9 million, property taxes of $4.0 million, and income taxes of $4.8 million. Expenses decreased in fiscal 2013 by $117.2 million when compared to fiscal 2012, mainly due to decreases in general government expenses of $12.7 million due to budgetary controls and employees electing early retirement and due to a decrease in transportation and communication expenses of $37.0 million. Health expenses decreased by $49.2 million due to the transfer of the Supplemental Nutrition Assistance Program (Food Stamps) program to the public housing and welfare function (Department of Human Services) of the primary Government.

A summary of net position and changes in net position for the primary government follows:

Net Position (Deficit) – Primary Government

September 30, 2013 and 2012

(In thousands)

	Governmental activities		Business-type activities		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Assets						
Current assets	**$ 1,030,660**	$ 984,766	**$ 6,107**	$ 5,793	**$ 1,036,767**	$ 990,559
Capital assets	**784,258**	753,059	**102,481**	69,183	**886,739**	822,242
Other assets	**46,652**	41,743	**–**	66	**46,652**	41,809
Total assets	**1,861,570**	1,779,568	**108,588**	75,042	**1,970,158**	1,854,610
Liabilities						
Long-term debt outstanding	**2,691,892**	2,616,014	**41,983**	35,145	**2,733,875**	2,651,159
Other liabilities	**532,273**	500,106	**103,168**	101,255	**635,441**	601,361
Total liabilities	**3,224,165**	3,116,120	**145,151**	136,400	**3,369,316**	3,252,520
Net Position						
Invested in capital assets	**197,458**	138,617	**81,293**	39,849	**278,751**	178,466
Restricted	**277,752**	221,897	**11,864**	5,098	**289,616**	226,995
Unrestricted	**(1,837,805)**	(1,697,066)	**(129,720)**	(106,305)	**(1,967,525)**	(1,803,371)
Total net position (deficit)	**$ (1,362,595)**	$ (1,336,552)	**$ (36,563)**	$ (61,358)	**$ (1,399,158)**	$ (1,397,910)

Changes in Net Position - Primary Government

September 30, 2013 and 2012

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Revenue:						
Program revenue:						
Charges for services	**$ 20,491**	$ 38,932	**$ 59,649**	$ 61,144	**$ 80,140**	$ 100,076
Operating grants and contributions	**214,646**	281,100	**15,944**	23,294	**230,590**	304,394
Capital grants and contributions	**26,755**	25,157	**28,774**	7,742	**55,529**	32,899
General revenue:						
Taxes	**895,004**	780,315	**–**	–	**895,004**	780,315
Interest and other	**44,199**	46,933	**5,467**	142	**49,666**	47,075
Other general revenue	**2,134**	2,134	**–**	–	**2,134**	2,134
Total revenue	**1,203,229**	1,174,571	**109,834**	92,322	**1,313,063**	1,266,893
Expenses:						
General government	**613,282**	626,050	**–**	–	**613,282**	626,050
Public safety	**53,873**	56,251	**–**	–	**53,873**	56,251
Health	**48,350**	97,590	**–**	–	**48,350**	97,590
Public housing and welfare	**153,895**	138,589	**–**	–	**153,895**	138,589
Education	**229,021**	236,612	**–**	–	**229,021**	236,612
Transportation and communication	**17,938**	54,991	**–**	–	**17,938**	54,991
Culture and recreation	**7,613**	7,356	**–**	–	**7,613**	7,356
Interest on long-term debt	**106,000**	103,005	**–**	–	**106,000**	103,005
Unemployment insurance	**–**	–	**21,167**	57,407	**21,167**	57,407
West Indian Company	**–**	–	**9,820**	8,983	**9,820**	8,983
Workmen's compensation	**–**	–	**9,297**	14,790	**9,297**	14,790
VI Lottery	**–**	–	**20,061**	15,150	**20,061**	15,150
Other	**–**	–	**23,994**	14,747	**23,994**	14,747
Total expenses	**1,229,972**	1,320,444	**84,339**	111,077	**1,314,311**	1,431,521
Changes in net position before transfers	**(26,743)**	(145,873)	**25,495**	(18,755)	**(1,248)**	(164,628)
Transfers	**700**	700	**(700)**	(700)	**–**	–
	700	700	**(700)**	(700)	**–**	–
Change in net position	**(26,043)**	(145,173)	**24,795**	(19,455)	**(1,248)**	(164,628)
Net position (deficit) at beginning of year	**(1,336,552)**	(1,191,379)	**(61,358)**	(41,903)	**(1,397,910)**	(1,233,282)
Net position (deficit) at end of year	**$ (1,362,595)**	$ (1,336,552)	**$ (36,563)**	$ (61,358)	**$ (1,399,158)**	$ (1,397,910)

The Virgin Islands Office of Management and Budget of the PG prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in Note 3 of the basic financial statements. A summary of the budgetary report for the General Fund of the PG, included on page 26 of the financial statements, follows:

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

Year Ended September 30, 2013
(In thousands)

	Original Budget	**Amended Budget**	**Actual**	**Variance**
Total revenues	$ 604,109	$ 604,109	$ 682,106	$ 77,997
Total expenditures	674,835	695,825	801,252	(105,427)
Deficiency of revenues under expenditures	(70,726)	(91,716)	(119,146)	(27,430)
Other financing sources, net	91,716	91,716	98,420	6,704
Excess (Deficiency) of revenues and net other financing sources over expenditures	$ 20,990	$ –	$ (20,726)	$ (20,726)

For fiscal 2013, the general fund realized an unfavorable budgetary variance of $20.7 million mainly due to the general government function of government. The general fund realized an favorable revenue variance of $77.9 million due to the increase in tax revenues and federal grants and contributions. The PG realized a negative expenditure variance of $105.4 million due to the increase in general government expenditures. Some of those expenditures responsible for the increase are operational expenditures like utilities, pension liabilities, and other carryforward liabilities with the loss of ARRA federal grant revenues.

Capital Assets

Capital assets additions during fiscal 2013 amounted to $64.2 million for governmental activities and $38.1 million for business-type activities.

Capital assets additions during fiscal 2012 amounted to $36.3 million for governmental activities and $17.6 million for business-type activities.

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

Capital Assets – Primary Government
(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2013	**2012**	**2013**	**2012**	**2013**	**2012**
Land and improvements	**$ 199,325**	$ 198,342	**$ 5,495**	$ 5,495	**$ 204,820**	$ 203,837
Building and improvements	**458,997**	440,906	**67,955**	67,517	**526,952**	508,423
Machinery and equipment	**160,217**	156,472	**14,181**	11,766	**174,398**	168,238
Infrastructure	**251,675**	240,167	**–**	–	**251,675**	240,167
Construction in progress	**123,495**	102,467	**47,435**	12,303	**170,930**	114,770
Intangible	**–**	–	**8,117**	8,064	**8,117**	8,064
Total capital assets	**1,193,709**	1,138,354	**143,183**	105,145	**1,336,892**	1,243,499
Less accumulated depreciation	**(409,451)**	(385,295)	**(40,702)**	(35,962)	**(450,153)**	(421,257)
Total capital assets, net	**$ 784,258**	$ 753,059	**$ 102,481**	$ 69,183	**$ 886,739**	$ 822,242

Note 10 provides detailed information regarding the capital assets of the primary government and the component units of the Government.

Debt Administration

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2013:

Primary Government – Bonds Payable

(In thousands)

Bonds Payable	Maturity	Rates (%)	Balance
2013 Series A Revenue Refunding Bonds	2024	5.00 - 5.25	$ 36,000
2012 Series C Revenue Bonds	2042	4.00 - 5.00	35,115
2012 Series A & B Revenue & Refunding Bonds	2032	2.25 - 5.25	228,805
2012 Series A Revenue Bonds	2032	4.00 - 5.00	142,640
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	397,060
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	37,490
2009 Series A-1, A-2, B & C Revenue and Refunding Bonds	2040	3.00 - 5.00	396,585
2009 Series A Revenue Bonds (Diageo)	2038	6.00 - 6.75	250,000
2006 Series A Revenue Bonds	2029	3.50 - 5.00	208,875
2006 Series A,B,C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2004 Series A Revenue Bonds	2024	4.00 - 5.25	67,435
2003 Series A Revenue Bonds	2033	4.00 - 5.25	241,510
2001 Series A Tobacco Bonds	2031	5.00	12,645
Subtotal			2,061,450
Deferred costs on refundings			(13,272)
Bond premium			50,122
Bond discount			(3,533)
Bond accretion			4,500
Total			$ 2,099,267

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

In fiscal year 2013, the Government issued the 1) 2013A Revenue Refunding Bonds in the amount of $36.0 million, to partially advance refund certain bond issuances, 2) the 2012A and B Revenue and Refunding Bonds in the amount of $228.8 million to current refund the Series 1999A Bonds, the Series 2010A-1 and A-2 Working Capital Notes, and the Series 2011A Note, 3) the Series 2012C Bonds in the amount of $35 million to finance certain energy projects, 4) the Series 2013A Note in the amount of $2.6 million to finance the purchase of police vehicles, and 5) the Series 2013B Note in the amount of $40.0 million, to provide working capital and to pay certain operating expenses. During fiscal year 2013, the Government also borrowed $38.0 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

In fiscal year 2012, the Government issued the 1) 2012A Working Capital Revenue Bonds in the amount of $142.6 million, to provide working capital for various operating expenses, 2) the 2011 Property Tax Revenue Anticipation Note in the amount of $13.0 million, the proceeds of which was used to pay incentive payments to government employees that elected to retire early under the Economic Stability Act enacted by the Virgin Islands Legislature in 2010, and 3) an additional $1.6 million to a private developer in St. Croix under the 2009A Tax Increment Note. During fiscal year 2012, the Government also borrowed $15.1 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

The PG made bond principal payments on all outstanding general and special revenue bonds amounting to $113.0 million during fiscal year 2013, and $48.6 million during fiscal year 2012.

The Government's bonds secured by pledged rum excise taxes (matching funds) carry insured ratings of "BBB-" from Fitch Ratings and "Baa2" from Moody's Investors Service, respectively as of the date of this report. The Government's bonds secured by gross receipts taxes carry insured ratings of "BBB" from Fitch Ratings. On February 12, 2013, Moody's Investors Service withdrew its ratings of the Government's gross receipts tax debt, citing a lack of sufficient financial and operating information due to the late issuance of audit reports. Bond ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained from the respective rating agency.

Other liabilities of the PG include:

Primary Government – Other Liabilities

September 30, 2013 and 2012
(In millions)

	2013	2012
Accrued compensated absences	**$ 51**	$ 73
Accrued arbitrage rebates	**–**	14
Retroactive union arbitration	**195**	195
Litigation	**13**	12
Post employment benefits	**285**	246
Landfill closure and post closure costs	**96**	72
Worker's compensation	**27**	27
Total other liabilities	**$ 667**	$ 639

Economic Condition and Outlook

The PG continues its recovery efforts from the economic recession of 2008 through a combination of revenue initiatives and developing measures to reduce the deficit by controlling expenditures.

Revenue Initiatives

The PG has implemented several initiatives to create jobs and promote economic growth including: providing economic incentives to attract a major rum distiller (Diageo) and retain another rum distiller (Cruzan Rum), enactment of tax increment financing legislation, implementation of a broadband infrastructure initiative, continued promotion of tourism through national advertising. The PG has also implemented several tax initiatives to promote tax compliance and tax collection. A successful initiative was the "Operation Last Chance" income tax collection initiative. Delinquent taxpayers were provided an amnesty of penalty and interest to become current in tax filings. The PG has also legislated increases in local taxes, including gross receipts taxes, hotel taxes and stamp taxes.

In connection with a real property tax case instituted against the PG in the U.S. District Court of the Virgin Islands, the PG was enjoined from appraising and assessing any real property taxes until it modified its system of appraisal to comply with certain court mandates. The PG retained a consultant to modify its system of appraisal and to perform reassessment of properties. This project was completed in fiscal 2009. The U.S. District Court also required an over-haul of the tax review board responsible for hearing tax assessment reviews. The PG complied with all court orders and in 2013 became current in the issuance of property tax assessments.

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

Budgetary Control of Expenditures

The PG faces the challenge of carry-forward liabilities from prior fiscal years and the loss of federal grant revenues with the closing of the American Recovery and Reinvestment (ARRA) grant program.

Carry-forward liabilities consist mainly of retroactive salary increases, which accumulated following Hurricanes Hugo, Marilyn and Bertha in the years of 1990 through 1998. At September 30, 2013 and 2012, unpaid retroactive salary increase liabilities amounted to $195.3 million, respectively, reported as a liability of the Government within other noncurrent liabilities.

Federal grant program revenues returned to pre-ARRA levels in fiscal year 2013, a reduction of $64.8 million.

The PG faces the challenge of funding pension and other post-employment benefits for retirees. In September 2011, the Department of Interior issued an evaluation report that the Government's pension plan may be unable to fulfill its responsibilities in fourteen to seventeen years. In addition to pension liabilities, the actuarial estimate of post-employment liabilities (mainly health insurance for retirees) was $284.9 billion as of September 30, 2013. The PG has enacted a Pension Reform Joint Task Force to provide recommendations to the Legislature to meet these challenges. Recommendations provided by the Task Force included: (1) increasing retirement age, (2) restructuring of benefits, and (3) no longer allowing retirees to both work and collect benefits from the PG.

Deficit Reduction Measures

In fiscal year 2013, the PG reported an unrestricted net deficit of $1.9 billion. In fiscal year 2012, the PG reported an unrestricted net deficit of $1.8 billion.

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

Contacting the Government's Financial Management

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

Basic Financial Statements

Government of the United States Virgin Islands

Statement of Net Position

September 30, 2013
(In thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Assets				
Cash and cash equivalents	$ 194,404	$ 9,226	$ 203,630	$ 78,138
Investments	544,268	1,519	545,787	12,047
Receivables, net	220,697	5,260	225,957	65,065
Internal balances	37,378	(37,378)	–	–
Due from component units	4,348	–	4,348	–
Notes and other receivables	–	–	–	8,660
Due from primary government	–	–	–	41,181
Due from federal government	22,740	14,429	37,169	13,015
Inventories	–	–	–	32,271
Other assets	5,502	1,187	6,689	15,455
Restricted:				
Cash and cash equivalents	1,323	11,864	13,187	59,771
Investments	–	–	–	85,788
Other	–	–	–	26,062
Capital assets, net	784,258	102,481	886,739	991,625
Deferred expenses and other assets	46,652	–	46,652	108,132
Total assets	1,861,570	108,588	1,970,158	1,537,210
Liabilities				
Accounts payable and accrued liabilities	121,616	14,004	135,620	205,702
Tax refunds payable	50,039	–	50,039	–
Unemployment insurance benefits	–	8,319	8,319	–
Customer deposits	–	–	–	24,889
Due to primary government	–	–	–	4,348
Due to component units	41,181	–	41,181	–
Due to federal government	–	–	–	5,770
Interest payable	51,931	–	51,931	7,095
Unearned revenue	193,166	1,392	194,558	11,895
Other current liabilities	–	–	–	17,820
Noncurrent liabilities:				
Due within one year:				
Notes payable	3,037	76,406	79,443	4,665
Bonds payable	62,835	–	62,835	15,359
Other liabilities	5,376	3,047	8,423	771
Due in more than one year:				
Line of credit payable	–	–	–	19,375
Notes payable	23,522	21,239	44,761	58,864
Bonds payable	2,036,432	–	2,036,432	292,077
Other liabilities	635,030	20,744	655,774	68,453
Total liabilities	3,224,165	145,151	3,369,316	737,083

(Continued)

Government of the United States Virgin Islands

Statement of Net Position (continued)

September 30, 2013
(In thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Net Position:				
Invested in capital assets	$ 197,458	$ 81,293	$ 278,751	$ 735,640
Restricted for:				
Unemployment insurance	–	9,907	9,907	–
Debt service	276,429	1,957	278,386	–
Capital projects	1,323	–	1,323	–
Other purposes	–	–	–	169,608
Unrestricted	(1,837,805)	(129,720)	(1,967,525)	(105,121)
Total net position (deficit)	$ (1,362,595)	$ (36,563)	$ (1,399,158)	$ 800,127

See accompanying notes.

Government of the United States Virgin Islands

Statement of Activities

Year Ended September 30, 2013
(In thousands)

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net Revenue (Expense) and Changes in Net Position: Primary Government: Governmental Activities	Business-type Activities	Total	Component Units
Functions:								
Primary government:								
Governmental activities:								
General government	$ 613,282	$ 16,801	$ 29,168	$ 6,888	$ (560,425)	$ –	$ (560,425)	$ –
Public safety	53,873	557	2,998	–	(50,318)	–	(50,318)	–
Health	48,350	708	20,201	–	(27,441)	–	(27,441)	–
Public housing and welfare	153,895	434	100,114	–	(53,347)	–	(53,347)	–
Education	229,021	421	58,000	–	(170,600)	–	(170,600)	–
Transportation and communication	17,938	465	4,165	19,867	6,559	–	6,559	–
Culture and recreation	7,613	1,105	–	–	(6,508)	–	(6,508)	–
Interest on long-term debt	106,000	–	–	–	(106,000)	–	(106,000)	–
Total governmental activities	1,229,972	20,491	214,646	26,755	(968,080)	–	(968,080)	–
Business-type activities:								
Unemployment insurance	21,167	12,299	13,267	–	–	4,399	4,399	–
West Indian Company	9,820	9,112	–	–	–	(708)	(708)	–
Workmen’s compensation	9,297	6,635	–	–	–	(2,662)	(2,662)	–
VI Lottery	20,061	19,287	–	–	–	(774)	(774)	–
Other	23,994	12,316	2,677	28,774	–	19,773	19,773	–
Total business-type activities	84,339	59,649	15,944	28,774	–	20,028	20,028	–
Total primary government	$ 1,314,311	$ 80,140	$ 230,590	$ 55,529	(968,080)	20,028	(948,052)	–
Component units:								
Virgin Islands Housing Authority	$ 48,819	$ 6,499	$ 35,978	$ 7,226	–	–	–	884
Virgin Islands Port Authority	65,575	47,671	–	6,561	–	–	–	(11,343)
Virgin Islands Water and Power Authority:								
Electric system	341,328	339,000	–	4,944	–	–	–	2,616
Water system	50,472	37,706	–	3,185	–	–	–	(9,581)
Virgin Islands Government Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	86,540	53,393	21,022	360	–	–	–	(11,765)
Juan F. Luis Hospital	85,901	48,160	20,282	327	–	–	–	(17,132)
University of the Virgin Islands	84,228	17,580	49,640	3,992	–	–	–	(13,016)
Other component units	69,192	8,460	55,547	5,400	–	–	–	215
Total component units	$ 832,055	$ 558,469	$ 182,469	$ 31,995	–	–	–	(59,122)
Total primary government and component units					(968,080)	20,028	(948,052)	(59,122)

(continued)

Government of the United States Virgin Islands

Statement of Activities (continued)

Year Ended September 30, 2013
(In thousands)

	Net Revenue (Expense) and Changes in Net Position			
	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
General revenues:				
Taxes	895,004	–	895,004	–
Interest and other	44,199	5,467	49,666	13,960
Tobacco settlement rights	2,134	–	2,134	–
Transfers – internal activities of primary government	700	(700)	–	–
Forgiveness of debt	–	–	–	–
Total general revenue	942,037	4,767	946,804	13,960
Changes in net position	(26,043)	24,795	(1,248)	(45,162)
Net position, beginning of year, as restated	(1,336,552)	(61,358)	(1,397,910)	845,289
Net position, end of year	$ (1,362,595)	$ (36,563)	$ (1,399,158)	$ 800,127

See accompanying notes.

Government of the United States Virgin Islands

Balance Sheet – Governmental Funds

September 30, 2013
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Assets					
Cash and cash equivalents	$ 105,284	$ 4,514	$ 23,634	$ 62,295	$ 195,727
Investments	143,577	341,303	54,291	5,097	544,268
Receivables:					
Taxes, net	171,417	47,532	–	–	218,949
Accrued interest and other	9	–	–	139	148
Due from:					
Other funds	13,979	–	31,089	18,549	63,617
Component units, net	4,348	–	–	–	4,348
Federal government	–	–	–	22,740	22,740
Total assets	$ 438,614	$ 393,349	$ 109,014	$ 108,820	$ 1,049,797
Liabilities and Fund Balances					
Accounts payable and accrued liabilities	$ 97,977	$ 194	$ 2,247	$ 21,198	$ 121,616
Tax refunds payable	50,039	–	–	–	50,039
Due to:					
Other funds	17,160	–	–	9,079	26,239
Component units	41,181	–	–	–	41,181
Unearned revenue	242,203	116,726	–	3,500	362,429
Total liabilities	448,560	116,920	2,247	33,777	601,504
Fund balances:					
Restricted	–	276,429	106,767	–	383,196
Committed	27,314	–	–	27,217	54,531
Assigned	–	–	–	47,826	47,826
Unassigned	(37,260)	–	–	–	(37,260)
Total fund balances	(9,946)	276,429	106,767	75,043	448,293
Total liabilities and fund balances	$ 438,614	$ 393,349	$ 109,014	$ 108,820	

Amounts reported for governmental activities in the statement of net position (deficit) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	784,258
Expenditures identified as related to a future period recognized as a prepaid asset in the statement of net assets.	5,502
Deferred bond issue costs are not financial resources and, therefore, are not reported in the funds.	46,652
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and, therefore, are deferred in the funds	170,865
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(51,931)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,766,234)
Net position (deficit) of governmental activities	$ (1,362,595)

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2013
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Revenues:					
Taxes	$ 641,000	$ 249,219	$ 1,946	$ 22,613	$ 914,778
Federal grants and contributions	13,968	–	–	227,433	241,401
Charges for services	9,969	–	–	10,522	20,491
Tobacco settlement rights	–	–	–	2,134	2,134
Interest and other	17,169	2,957	32	24,041	44,199
Total revenues	682,106	252,176	1,978	286,743	1,223,003
Expenditures:					
Current:					
General government	476,215	50	6,842	74,843	557,950
Public safety	49,996	–	–	2,054	52,050
Health	31,483	–	–	15,892	47,375
Public housing and welfare	52,560	–	–	100,996	153,556
Education	165,250	–	–	58,063	223,313
Transportation and communication	18,784	–	384	4,989	24,157
Culture and recreation	6,964	–	–	227	7,191
Capital outlays	3,630	–	21,057	39,058	63,745
Debt service:					
Principal	44,152	272,937	1,934	1,535	320,558
Interest	1,888	98,283	239	706	101,116
Total expenditures	850,922	371,270	30,456	298,363	1,551,011
Deficiency of revenue under expenditures	(168,816)	(119,094)	(28,478)	(11,620)	(328,008)
Other financing sources (uses):					
Bonds issued	–	265,798	34,122	–	299,920
Loans issued	40,000	–	2,660	–	42,660
Bond premiums	–	15,281	1,661	–	16,942
Bond discounts and issuance costs	–	(7,545)	–	–	(7,545)
Transfers from other funds	102,428	1,309	–	5,878	109,615
Transfers to other funds	(4,008)	(100,823)	(584)	(3,500)	(108,915)
Total other financing sources, net	138,420	174,020	37,859	2,378	352,677
Net change in fund balances	(30,396)	54,926	9,381	(9,242)	24,669
Fund balance at beginning of year	20,450	221,503	97,386	84,285	423,624
Fund balance at end of year	$ (9,946)	$ 276,429	$ 106,767	$ 75,043	$ 448,293

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2013
(In thousands)

Net change in fund balances – total governmental funds	$	24,669
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		31,201
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.		(19,774)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This is the amount by which debt loan and bond proceeds of $342.6 million exceeded debt repayments of $320.6 million.		(22,022)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the decrease in certain liabilities reported in the statement of net assets of the previous year decreased expenses reported in the statement of activities that do not require the use of current financial resources.		(28,232)
Some expenses reported as prepaid assets in the statement of net assets in the current year are recognized as expenses in the following year in the statement of activities.		5,468
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount of bond issuance costs amortized in the statement of activities.		4,909
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts deferred refunding loss, and accreted interest on capital appreciation bonds during the current year.		(17,378)
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in interest payable reported in the statement of net assets.		(4,884)
Change in net position of governmental activities	$	(26,043)

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2013
(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Taxes	$ 507,244	$ 507,244	$ 641,000	$ 133,756
Federal grants and contributions	13,508	–	13,968	13,968
Charges for services	–	13,508	9,969	(3,539)
Interest and other	83,357	83,357	17,169	(66,188)
Total revenues	604,109	604,109	682,106	77,997
Expenditures:				
Current:				
General government	157,696	176,279	476,215	(299,936)
Public safety	123,151	123,151	49,996	73,155
Health	68,158	68,166	31,483	36,683
Public housing and welfare	74,820	75,920	52,560	23,360
Education	198,905	200,184	165,250	34,934
Transportation and communication	30,361	30,365	18,784	11,581
Culture and recreation	21,744	21,760	6,964	14,796
Total expenditures	674,835	695,825	801,252	(105,427)
Deficiency of revenues over expenditures	(70,726)	(91,716)	(119,146)	(27,430)
Other financing sources (uses):				
Bonds issued	–	–	–	–
Loans issued	–	–	40,000	40,000
Debt service:				
Principal	–	–	–	–
Transfers from other funds	91,716	91,716	102,428	10,712
Transfer to other funds	–	–	(4,008)	(4,008)
Total other financing sources, net	91,716	91,716	98,420	6,704
Excess (deficiency) of revenues and net other financing sources over expenditures	$ 20,990	$ –	$ (20,726)	$ (20,726)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Net Position – Proprietary Funds

September 30, 2013
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	**Unemployment Insurance**	**Other Enterprise**	**Totals**
Assets				
Current assets:				
Cash and cash equivalents	$ 2,013	$ 1,129	$ 6,084	$ 9,226
Investments at fair value	–	–	1,519	1,519
Receivables, net:				
Premiums receivable	–	2,617	–	2,617
Other receivables	872	–	1,771	2,643
Due from:				
Other funds	–	–	739	739
Federal government		4,521	9,908	14,429
Other assets	675	–	512	1,187
Total current assets	3,560	8,267	20,533	32,360
Noncurrent assets:				
Restricted cash and cash equivalents	1,957	9,907	–	11,864
Capital assets	40,436	–	62,045	102,481
Deferred expenses	–	–	–	–
Total noncurrent assets	42,393	9,907	62,045	114,345
Total assets	45,953	18,174	82,578	146,705
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	2,772	1,337	9,895	14,004
Due to other funds	4,700	–	33,417	38,117
Unemployment insurance benefits	–	8,319	–	8,319
Unearned revenue	–	–	1,392	1,392
Workers compensation	–	–	3,047	3,047
Loan payable to U.S. Treasury	–	76,406	–	76,406
Total current liabilities	7,472	86,062	47,751	141,285
Noncurrent liabilities:				
Workers compensation	–	–	20,744	20,744
Loans payable related to capital assets	21,239	–	–	21,239
Total noncurrent liabilities	21,239	–	20,744	41,983
Total liabilities	28,711	86,062	68,495	183,268
Net position				
Invested in capital assets	19,248	–	62,045	81,293
Restricted	1,957	9,907	–	11,864
Unrestricted	(3,963)	(77,795)	(47,962)	(129,720)
Total net position	$ 17,242	$ (67,888)	$ 14,083	$ (36,563)

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2013
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	**Unemployment Insurance**	**Other Enterprise**	**Total**
Operating revenues:				
Charges for services	$ 9,112	$ 12,299	$ 38,238	$ 59,649
Total operating revenues	9,112	12,299	38,238	59,649
Operating expenses:				
Cost of services	6,500	20,318	50,509	77,327
Amortization	–	–	1,586	1,586
Depreciation	1,970	–	1,257	3,227
Total operating expenses	8,470	20,318	53,352	82,140
Operating income (loss)	642	(8,019)	(15,114)	(22,491)
Non-operating revenues (expenses):				
Federal grants	–	13,267	31,451	44,718
Interest and other income	2,970	143	2,354	5,467
Interest expense	(1,350)	(849)	–	(2,199)
Total non-operating revenues, net	1,620	12,561	33,805	47,986
Income before operating transfers	2,262	4,542	18,691	25,495
Transfers to other funds	(700)	–	–	(700)
Change in net position	1,562	4,542	18,691	24,795
Net position at beginning of year	15,680	(72,430)	(4,608)	(61,358)
Net position at end of year	$ 17,242	$ (67,888)	$ 14,083	$ (36,563)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Cash Flows − Proprietary Funds

Year Ended September 30, 2013
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	Unemployment Insurance	Other Enterprise	Total
Cash flows from operating activities				
Receipts from customers and users	$ 8,989	$ 6,207	$ 30,181	$ 45,377
Payments to beneficiaries, suppliers and employees	(4,517)	(46,371)	(37,302)	(88,190)
Net cash provided by (used in) operating activities	4,472	(40,164)	(7,121)	(42,813)
Cash flows from noncapital financing activities				
Settlement of lawsuit	2,950	–	–	2,950
Transfer in (out) to other fund	(700)	–	–	(700)
Federal grants	–	13,267	31,451	44,718
Net cash provided by noncapital financing activities	2,250	13,267	31,451	46,968
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(3,956)	–	(34,156)	(38,112)
Issuance of debt	–	38,000	–	38,000
Principal paid on debt issuances	(524)	(3,341)	–	(3,865)
Interest paid on debt issuances	(1,350)	(849)	–	(2,199)
Net cash provided by (used in) capital and related financing activities	(5,830)	33,810	(34,156)	(6,176)
Cash flows from investing activities				
Interest on investments	20	143	17	180
Net cash provided by investing activities	20	143	17	180
Net change in cash and cash equivalents	912	7,056	(9,809)	(1,841)
Cash and cash equivalents at beginning of year	3,058	3,980	15,893	22,931
Cash and cash equivalents at end of year	$ 3,970	$ 11,036	$ 6,084	$ 21,090
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities				
Operating income (loss)	$ 642	$ (8,019)	$ (15,114)	$ (22,491)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,970	–	2,843	4,813
Change in assets and liabilities:				
Receivables, net	(123)	(1,573)	(483)	(2,179)
Due from federal government	–	(4,520)	(7,864)	(12,384)
Unearned revenue	–	–	290	290
Other assets	49	–	4,429	4,478
Accounts payable and accrued liabilities	1,234	747	1,965	3,946
Unemployment insurance benefits	–	(26,799)	–	(26,799)
Workers compensation	–	–	–	–
Due to other funds	700	–	6,813	7,513
Net cash provided by (used in) operating activities	$ 4,472	$ (40,164)	$ (7,121)	$ (42,813)
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents – current	$ 2,013	$ 1,129	$ 6,084	$ 9,226
Cash and cash equivalents – restricted	1,957	9,907	–	11,864
Total cash and cash equivalents at end of year	$ 3,970	$ 11,036	$ 6,084	$ 21,090

See accompanying notes.

Government of the United States Virgin Islands

Statement of Fiduciary Net Position – Fiduciary Funds

September 30, 2013
(In thousands)

	Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents:		
Unrestricted	$ 77,997	$ –
Restricted	33	–
Investments	1,069,809	4,090
Receivables, net:		
Loans and advances	148,069	–
Accrued interest	5,405	–
Other	4,697	–
Other assets	12,498	–
Total assets	1,318,508	4,090
Liabilities		
Accounts payable and accrued liabilities	–	–
Benefits in process of payment	4,502	–
Unsettled securities purchased	566	–
Securities lending collateral	52,361	–
Other liabilities	8,570	4,090
Total liabilities	65,999	4,090
Net position held in trust for employees' pension benefits	$ 1,252,509	$ –

See accompanying notes.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Position - Fiduciary Funds

Year Ended September 30, 2013
(In thousands)

	Pension Trust Fund
Additions:	
Contributions:	
Employer	$ 64,431
Plan members	34,090
Total contributions	98,521
Investment income:	
Net appreciation of fair value of investments	81,931
Net depreciation of fair value of real estate	(366)
Interest, dividends, and other, net	31,679
Real estate – net rental income	2,932
	116,176
Less investment expense	4,651
Net investment income	111,525
Other income	1,272
Total additions	211,318
Deductions:	
Benefits paid	234,362
Refunds of contributions	6,203
Administrative and operational expenses	19,582
Total deductions	260,147
Change in net position	(48,829)
Net position, beginning of year	1,301,338
Net position, end of year	$ 1,252,509

See accompanying notes.

1. Summary of Significant Accounting Policies

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

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

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

Financial Reporting Entity

The Government follows the provisions of GASB Statement No. 61, *The Financial Reporting Entity, Omnibus*, an amendment of GASBS Statements No. 14 and No. 34. These standards require that the Government's financial reporting entity be defined according to specific criteria. According to the standard, for financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely-presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable and organizations for which the nature and significance of their relationship with the primary Government are such that exclusion would cause the reporting entity's financial statements to be misleading. The criteria used to define financial accountability include: (i) if an organization is fiscally dependent on, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary Government, (ii) a government board appointed by a higher level of government, or (iii) a jointly appointed board.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

The financial statements of the following component units are included in the financial reporting entity either as blended or as discretely-presented component units in accordance with GAAP:

(a) Blended Component Units

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

<u>Virgin Islands Public Finance Authority (PFA)</u>

PFA was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, *The Government Capital Improvement Act of 1988*, with the purpose of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, PFA has the power, among other matters, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government, any governmental instrumentality, and to private entities. Pursuant to Section 7(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 powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the USVI Legislature (the Legislature). PFA activities are blended within the PG because it is so intertwined with the Government that, in substance, they are the same. The PFA funds are reported as major funds, with the exception of PFA Special Revenue Fund, which is included in the other aggregate remaining fund information.

PFA's blended component units, the West Indian Company (WICO) and Virgin Islands Next Generation Network (viNGN), are presented as enterprise funds in the Government's basic financial statements.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(a) Blended Component Units (continued)

Tobacco Settlement Financing Corporation (TSFC)

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

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

Administrative Offices of Blended Component Units
Virgin Islands Public Finance Authority
32-33 Kongens Gade
St. Thomas, VI 00802

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

(b) Discretely-Presented Component Units

The following component units, consistent with GASB Statements Nos. 61, 14 and 39 are discretely-presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will. The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely-Presented Component Units (continued)

Major Component Units

Virgin Islands Housing Authority (VIHA)

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

The Authority is governed by a board of commissioners autonomous to HUD. An executive director is appointed by the Authority's Board to manage the day-to-day operations of the Authority.

Given the nature of VIHA's operations and the significance of its relationship with the Government, management believes that its exclusion from the financial reporting entity would cause the Government's basic financial statements to be incomplete.

On May 30, 2014, the HUD receivership ended, and management of VIHA was returned to a board of trustees appointed by the PG.

Virgin Islands Port Authority (VIPA)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely-Presented Component Units (continued)

Major Component Units (continued)

Virgin Islands Water and Power Authority (WAPA)

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

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely-Presented Component Units (continued)

Major Component Units (continued)

University of the Virgin Islands (the University)

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

The University's financial statements include its blended component units: The Foundation for the University of the Virgin Islands and The Reichhold Foundation. The Foundation for the University of the Virgin Islands is a not-for-profit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Reichhold Foundation is a not-for-profit corporation that supports the arts and provides financial assistance in operating the Reichhold Center for the Arts on St. Thomas.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely-Presented Component Units (continued)

Nonmajor Component Units

Virgin Islands Economic Development Authority (EDA)

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

Magens Bay Authority (MBA)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely-Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Housing Finance Authority (VIHFA)

VIHFA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government by Act No. 4636 on October 20, 1981, with the purpose of stimulating low and moderate-income housing construction and home ownership through the issuance of revenue bonds to obtain funds to be used for low-interest mortgage loans to qualified purchasers of low and moderate-income housing. On October 31, 2008, VIHFA established the Virgin Islands Housing Management, Inc. (VIHM), a wholly-owned not-for-profit subsidiary for the purpose of managing VIHFA's rental properties. The financial statements of VIHM are separately issued, and not blended into the PG. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with advice and consent of the Legislature.

Virgin Islands Public Television System (VIPTS)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely-Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Waste Management Authority (VIWMA)

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

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

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

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

Administrative Offices

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

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

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

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

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

Virgin Islands Economic Development Authority
Nisky Shopping Center, Suite 620
St. Thomas, VI 00802

Magens Bay Authority
PO Box 10583
St. Thomas, VI 00801

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

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

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

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

All financial statements of the discretely-presented component units have a fiscal year-end of September 30, 2013, except for WAPA and VIHA that have a year-end of June 30, 2013 and December 31, 2012, respectively.

(c) Fiduciary Component Unit

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(c) Fiduciary Component Unit (continued)

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the PG and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net position presents the reporting entities' non-fiduciary assets and liabilities, with the difference reported as net position. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

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

(b) Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, property taxes, and income taxes are considered to be available if collected within 30, 60, and 90 days, respectively, after the end of the current fiscal year-end. Grant revenue is considered to be available if collected within the 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

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

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

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

Fund Accounting

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

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(a) Governmental Funds

The Government reports the following major governmental funds:

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

(b) Proprietary Funds

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

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

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(c) Fiduciary Funds

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

- Pension Trust Fund – The pension trust fund accounts for the activities of GERS, which accumulates resources for pension benefit payments to qualified employees.

- Agency Fund – The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Cash and Cash Equivalents

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

Cash equivalents of the proprietary funds and discretely-presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, short-term U.S. government and its agencies' obligations, and repurchase agreements with a U.S. commercial bank maturing within three months and collateralized by U.S. government obligations. Cash and cash equivalents of the discretely-presented component units are maintained in separate bank accounts from those of the PG, in their own names. By law, banks, or trust companies designated as depository of public funds of the Government are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited.

Investments

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

1. Summary of Significant Accounting Policies (continued)

Investment Policies

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

- ***Primary Government Investment Policies –*** Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. As of September 30, 2013, the General Fund, the Virgin Islands Lottery, a non-major governmental fund, and an agency fund had invested in certificates of deposit with two local banks. Investments are reported at fair value.

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

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

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

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

- ***Pension Trust Fund Investment Policies* –** The board of trustees of GERS have enacted policies that limit investments in certain investment categories and provide requirements for the institutions with which investment transactions may be entered into. Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund, or exceed 1% of the outstanding stock of the corporation. The aggregate amount of investments in stock may not exceed 60% of the market value of total investments of GERS. Investment in foreign stock should be limited to 10% of the market value of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of GERS.

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

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

GERS is authorized to invest in life settlement policy contract investments provided the investment is in a group of life insurance policies, with a minimum number of 100 measured lives; the face value of any single policy investment does not exceed $5.0 million or 2% of the aggregate face value of policy investments, and; the aggregate face value on any individual life does not exceed the greater of $10.0 million or 1% of the aggregate face value of policies purchased as investments by GERS. As of September 30, 2013, GERS had invested $50 million in the limited partnership Attilanus, a company that purchases senior life insurance policies for individuals age 65 and older with an average life expectancy of 5 to 7 years. The partnership agreement is effective through December 31, 2017, and may be extended for an additional two year period. Limited partners are not permitted to withdraw funds from the partnership. The value of the investment, net of returns of capital of $8.1 million, was $41.2 million at September 30, 2013.

On July 18, 2012, GERS executed a loan agreement with Attilanus. Under the terms of the agreement, a credit facility of $10 million was made available to meet on-going premium costs and other expenses. The terms of the credit facility require interest payments at a rate of 15% per annum, and principal payments reduce the future amount available. The entire loan principal and accrued and unpaid interest is to be repaid at the termination of the credit facility on July 10, 2017. As of September 30, 2013, the outstanding balance of the credit facility was $4.1 million.

In December 4, 2009, GERS executed a loan agreement with Seaborne Virgin Islands, Inc., a seaplane service operating on the islands of St. Croix and St. Thomas. The agreement provided for a first lien term loan of $1.3 million at an initial interest rate of 8.25%, and a senior secured convertible loan of $2 million at an interest rate of 14.5%, secured by real and personal property of Seaborne Airlines, the unconditional guarantee of Coastal Airways, Inc., the parent company of Seaborne, and all of the issued and outstanding stock of Seaborne. On September 20, 2012 the parties agreed to an amendment/modification to the loan agreement and term note and provided for the modification of the convertible note. The original principal indebtedness of the term note was amended and restated to be $2.3 million with an interest rate of 6.25% per annum for the unpaid principal of the term note. The original principal indebtedness of the convertible note was amended and restated to be $1 million. The interest is accrued at the rate of 8.25% per annum payable quarterly in arrears until the maturity date. The note may be prepaid in whole or in part with a prepayment penalty of $300 thousand.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

On November 2, 2013, GERS extended an additional loan to Seaborne Virgin Islands, Inc., in the amount of $1.5 million as part of a modification agreement of existing loans. The term of the loan is five (5) years, bearing interest in the amount of 6.25%. At September 30, 2013, the combined unpaid principal balances for the investment loans was $3.8 million.

On December 8, 2009, GERS executed a loan agreement with Carambola Northwest, LLC (Carambola), a condominium, hotel, and golf resort on the island of St. Croix. The five year term loan in the amount of $15 million is collateralized with all real property holdings of Carambola, with an interest rate of 10.5% per annum. Carambola subsequently went into default on the loan agreement. On May 11, 2013, GERS exercised its rights under the loan agreement and executed a preliminary Disposition Agreement with Carambola assuming management and ownership of the resort complex. As of September 30, 2013, the complex had an appraised value of $12 million.

On September 24, 2013, GERS entered into a loan agreement with KAZI Foods of the Virgin Islands in the amount of $6 million at an interest rate of 6.25%, and a maturity date of October 23, 2023. At September 30, 2013, the outstanding principal balance on the loan is $5.8 million.

GERS has also invested in Havensight Mall, a shopping and pier complex on the island of St. Thomas. The property is reported at the fair market value of $66.6 million. The investment in Havensight Mall generated rental income, net of related expense, of $2.7 million for the year ended September 30, 2013.

GERS owns administrative facilities on the islands of St. Thomas and St. Croix. Portions of the facilities are leased to government agencies and commercial tenants, and portions of the facilities are utilized for GERS operations. The investment is reported at historical cost, net of accumulated depreciation, in the amount of $28.1 million as of September 30, 2013.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***WAPA and VIPA Investment Policies*** **–** These major component units are authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, guaranteed investment contracts, obligations of the United States government, and obligations of any state within the United States, obligations of international banking institutions, mutual funds, corporate commercial paper, money market accounts and investment pools. Investments are reported at fair value.

- ***The University Investment Policies*** **–** The board of trustees of this major component unit is responsible for the management of the University's investments which consist of U.S. Government securities and securities backed by the U.S. Government or its agencies and instrumentalities, common and preferred stocks, and mutual funds. The University is in the process of finalizing a formal investment policy for review and approval by the board of trustees. The members of the board of trustees of the Reichhold Foundation are responsible for their specific investment policy.

- ***VIGHHFC Investment Policies*** **–** The board of trustees of this major component unit have not developed a formal investment policy. At September 30, 2013, investments consisted of a 40% interest in a U.S. Virgin Islands corporation that provides radiology services at Juan F. Luis Hospital and Medical Center. The investment in the U.S. Virgin Islands Corporation is accounted for under the equity method and was reported without value at September 30, 2013.

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

1. Summary of Significant Accounting Policies (continued)

Receivables

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

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

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

Subject to the provisions of the retirement law, and subject to rules and regulations prescribed by the board of trustees of GERS, members of GERS have the right to obtain loans from GERS to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to GERS for at least five years is $250,000. The interest rate on new first mortgages was 5% for loans payable in 1 to 15 years and 5.75% for loans payable over 15 years;87 and on second mortgages, 6% for loans payable in 1 to 15 years and 6.75% for loans payable in over 15 years. Members may also borrow up to $50,000 to purchase land.

Members who have contributed to GERS for at least five years can borrow up to $18,000 for the purchase of a new automobile. The interest rate offered on auto loans was 8.5% with a maximum term of five years. Active members may also borrow up to 75% of their contributions paid into GERS to a maximum borrowing of $50,000 as a personal loan. The interest rate offered on personal loans was 8% for the year. Retired members may qualify for personal loans up to $50,000 at the same interest rates as active members; however, effective fiscal year 2009, retirees have the option of refinancing their personal loan provided the original amount is paid down by at least 50%. Effective March 25, 2014, the policy changed to allow retirees to refinance their loans regardless of the outstanding balance.

Member loans in GERS are valued at the outstanding loan principal balance less an allowance for estimated loan losses. GERS believe that, based upon interest rate and risk factors, this valuation approximate fair value. Loans with limited partnerships have no readily ascertainable market value and are based on the valuation reported by their general partners.

1. Summary of Significant Accounting Policies (continued)

Receivables (continued)

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

Restricted Assets

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

Capital Assets

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

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

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

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements.

Depreciation expense is recorded in the government-wide financial statements, as well as the proprietary funds and component units' financial statements.

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

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

Tax Refunds Payable

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

Unearned Revenue

Unearned revenue at the governmental fund level arises when potential revenue neither meets measurable nor available criteria for revenue recognition in the current period. Unearned revenue also arises when resources are received before the Government has a legal claim to them. In subsequent periods, when the revenue recognition criteria are met, or when the Government has a legal claim to the resources, Unearned revenue is reduced from the balance sheet and the revenue is recognized. Unearned revenue at the government-wide and proprietary fund levels arises only when the Government receives resources before it has a legal claim to them or revenue recognition criteria have not been met.

1. Summary of Significant Accounting Policies (continued)

Long-term Liabilities

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, and other long-term liabilities including: compensated absences, retroactive union arbitration salaries, landfill closure and post closure, workers compensation loss claims, postemployment benefit costs, accrued arbitrage rebates, and legal claims. Bond premiums and discounts, losses incurred on bond refundings, and debt issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts and deferred refunding losses.

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

Fund Balance

Fund balances are reported in classifications provided by the Government Accounting Standards Board Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". Statement No. 54 provides a hierarchy of classifications based primarily on the extent to which the Government is bound to honor constraints on the specific purposes for which amounts in funds may be spent. Following are the fund classifications:

- ***Restricted Fund Balance –*** Fund balances constrained by externally imposed constraints such as constitutional provisions, laws and regulations, debt covenants and grantors. The Government's policy is to consider restricted amounts to have been spent when expenditures are incurred for which both restricted and unrestricted fund balances are available.

- ***Committed Fund Balance –*** Fund balances subject to constraints imposed by the Government's highest level of decision making authority including legislation enacted by the Legislature of the Virgin Islands, and resolutions or ordinances enacted by Government elected regulatory boards and authorities. Committed fund balances may be modified or rescinded by enacted legislation, or amendment of resolutions or ordinances.

1. Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

- ***Assigned Fund Balance* –** Fund balances subject to budgetary constraints of the Legislature, the Office of Management and Budget, or authorizing boards of the Government, that are not restricted or committed. Budgetary authority of the Office of Management and Budget is provided by Title 2, Sections 22, 23, 26 and 27 VIC, and Executive Order No. 371-1997. The Government's policy is to expend assigned or committed amounts, before unassigned amounts, when an expenditure is incurred.

- ***Unassigned Fund Balance* –** Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

- ***Nonspendable Fund Balance* –** The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form (such as inventories or prepaid amounts), or (b) legally or contractually required to be maintained intact (such as a permanent endowment fund).

Net Position

Net position is reported in three categories:

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

1. Summary of Significant Accounting Policies (continued)

Net Position (continued)

- ***Restricted Net Position –*** This category reflects the results constraints placed on the use of assets are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

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

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

Compensated Absences

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

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

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

1. Summary of Significant Accounting Policies (continued)

Interfund and Intra-entity Transactions

The Government has the following types of transactions among funds:

- ***Interfund Transfers* –** Legally required transfers are reported as interfund transfers in (out) when incurred.

- ***Intra-entity Transactions* –** These are transactions between the PG and its component units, and among the component units. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type.

Similarly, receivables and payables between the PG and its blended component units are reported as amounts due from (to) other funds. Transfers between the PG and discretely-presented component units (and among those component units) are reported separately as revenue and expenses or expenditures. Amounts owed to and from discretely-presented component units by the PG are reported separately from interfund payables and receivables as due from (to) component units, net of allowance for estimated uncollectible amounts.

Risk Management

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

The Government does not maintain accounting records in support of individual claim liabilities or for claims incurred but not reported (IBNR). Accordingly, medical malpractice claims are accounted for on a cash basis. Therefore, the basic financial statements do not include a liability for medical malpractice claims outstanding, including related IBNR, as of September 30, 2013, as required by GAAP.

1. Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Requirements

GASB has issued the following statements that the Government and its component units have adopted for the current fiscal year:

Statement Number		Required in Fiscal Year
60	Accounting and Financial Reporting for Service Concession Arrangements	2013
61	The Financial Reporting Entity; Omnibus - an amendment of GASB Statements Nos. 14 and 34	2013
62	Codification in Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA Pronouncements	2013
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position	2013

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

Statement Number		Required in Fiscal Year
65	Items Previously Reported as Assets and Liabilities	2014
66	Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62	2014
67	Financial Reporting for Pension Plans - an amendment of Statement No. 25	2014
68	Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27	2015
69	Government Combinations and Disposals of Government of Government Operations	2015
70	Accounting and Financial Reporting for Non-exchange Financial Guarantees	2014
71	Pension Transition for Contributions Made Subsequent to the Measurement Date	2015

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

2. Component Units

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

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

2. Component Units (continued)

Condensed financial information as of September 30, 2013 of all discretely-presented component units follows (expressed in thousands):

Information on net assets	Virgin Islands Housing Authority	Virgin Islands Port Authority	Virgin Islands Water and Power Authority: Electric System	Virgin Islands Water and Power Authority: Water System	Hospital and Health Facilities Corporation: Roy L. Schneider Hospital	Hospital and Health Facilities Corporation: Juan F. Luis Hospital	University of the Virgin Islands	Other Entities	Total Component Units
Assets:									
Current assets	$ 21,504	$ 28,246	$ 59,951	$ 12,166	$ 20,986	$ 15,416	$ 28,175	$ 25,195	$ 211,639
Due from primary government	–	–	31,695	3,622	–	8	686	5,170	41,181
Due from federal government	1,975	2,188	–	–	–	–	8,103	749	13,015
Restricted assets	3,366	13,016	56,893	10,150	823	193	38,334	48,843	171,618
Capital assets, net	69,859	232,417	290,706	66,641	52,964	38,001	69,176	171,861	991,625
Deferred expenses	–	868	60,068	1,222	–	–	–	–	62,158
Other noncurrent assets	1,564	–	–	–	255	–	1,340	42,815	45,974
Total assets	98,268	276,735	499,313	93,801	75,028	53,618	145,814	294,633	1,537,210
Liabilities:									
Current liabilities	3,855	12,728	128,048	5,601	30,417	56,601	5,043	13,213	255,506
Due to primary government	–	–	–	–	3,698	–	–	650	4,348
Due to federal government	5	–	4,565	–	–	1,200	–	–	5,770
Bonds payable	–	28,363	262,641	16,432	–	–	–	–	307,436
Notes payable	1,554	–	8,348	–	–	–	51,897	1,730	63,529
Line of credit payable	–	–	16,875	2,500	–	–	–	–	19,375
Deferred revenue	7	–	–	–	–	–	3,765	8,123	11,895
Other noncurrent liabilities	11,369	–	35,390	7,101	–	245	5,270	9,849	69,224
Total liabilities	16,790	41,091	455,867	31,634	34,115	58,046	65,975	33,565	737,083
Net assets (deficit):									
Invested in capital assets, net of related debt	64,978	203,161	138,306	52,250	52,964	37,756	15,804	170,421	735,640
Restricted	2,566	13,016	42,349	9,254	823	193	42,832	58,575	169,608
Unrestricted (deficit)	13,933	19,467	(137,208)	663	(12,874)	(42,378)	21,201	32,075	(105,121)
Total net assets	$ 81,477	$ 235,644	$ 43,447	$ 62,167	$ 40,913	$ (4,429)	$ 79,837	$ 261,071	$ 800,127

2. Component Units (continued)

Information on statements of activities	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions	Total Component Units
Virgin Islands Housing Authority	$ 48,819	$ 6,499	$ 35,978	$ 7,226	$ 884
Virgin Islands Port Authority	65,575	47,671	–	6,561	(11,343)
Virgin Islands Water and Power Authority:					
Electric System	341,328	339,001	–	4,944	2,617
Water System	50,472	37,706	–	3,185	(9,581)
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	86,540	53,393	21,022	360	(11,765)
Juan F. Luis Hospital	85,901	48,160	20,282	327	(17,132)
University of the Virgin Islands	84,228	17,580	49,640	3,992	(13,016)
Other component units	69,192	8,459	55,547	5,400	214
Total activities	$ 832,055	$ 558,469	$ 182,469	$ 31,995	(59,122)
General revenue:					
Interest and other					13,960
Forgiveness of debt					–
Changes in net assets					(45,162)
Net assets at beginning of year *(as restated)*					845,289
Net assets at end of year					$ 800,127

The amount due from the PG at September 30, 2013, amounted to approximately $41.2 million, with $35.3 million due to WAPA Electric and WAPA Water. The amount due to the PG amounted to $3.9 million with $3.6 million due from Roy L. Schneider Hospital.

3. Stewardship, Compliance, and Accountability

Budgetary Process and Control

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual balanced executive budget no later than May 30. The annual balanced executive budget is prepared on a GAAP basis, except for encumbrances, which are reported as expenditures for budget reporting purposes, by the Virgin Islands Office of Management and Budget (OMB) working in conjunction with other Government offices and

3. Stewardship, Compliance, and Accountability (continued)

Budgetary Process and Control (continued)

agencies. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed re-appropriated item by item. The annual balanced executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all proposed expenditures and estimated revenue for the Government. The Legislature enacts the annual executive budget through passage of lump-sum appropriations for each department. The Legislature may add, change, or delete any items in the annual executive budget proposed by the Governor. Upon passage by the Legislature, the annual executive budget is submitted to the Governor, who may veto the budget partially or in its entirety and return it to the Legislature with his objections. A veto by the Governor can be overridden only by a two-thirds majority of all members of the Legislature. The Legislature is obligated by law to pass a final annual executive budget no later than September 30, the last day of the fiscal year. Supplemental budgetary appropriations bills that are signed into law may be created during the year without the identification of a specific revenue source to finance them. In August 1999, the Legislature enacted the Financial Accountability Act (Act No. 6289). The purpose of the Financial Accountability Act is to require by law that the budget of the Government be balanced each year, and the appropriations in each fiscal year not exceed a verifiable revenue source.

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

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

3. Stewardship, Compliance, and Accountability (continued)

Budget/GAAP Reconciliation

The following schedule presents a comparison of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference in the excess (deficiency) of revenue and net other financing sources over expenditures for the year ended September 30, 2013 is presented below (expressed in thousands):

Deficiency of revenues and net other financing sources over expenditures	$	(20,726)
Entity difference – deficiency of revenues and net other financing over expenditures – activities with budgets not legally adopted		(9,670)
Deficiency of revenues and net other financing sources over expenditures – GAAP basis (net change in fund balance)	$	(30,396)

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

4. Cash and Cash Equivalents

Primary Government

At September 30, 2013, the PG reported $203.6 million in unrestricted cash and cash equivalents, and $13.1 million in restricted cash and cash equivalents. All of the PG's bank balances were fully collateralized.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2013, GERS held $77.9 million in cash and cash equivalents consisting of: $46.1 million in money market accounts and $17.2 million in operational accounts and $14.6 million in certificates of deposits with maturity time less than 90 days.

4. Cash and Cash Equivalents (continued)

Component Units

At September 30, 2013, discretely component units held $78.1 million in unrestricted cash and cash equivalents and $59.7 million in restricted cash and cash equivalents, of which $3.1 million was not insured, bonded or collateralized as required for public funds of the Government.

5. Investments

Primary Government Investments

Following is a summary of the investments of the PG, categorized by investment type and maturity as of September 30, 2013:

Primary Government Investments
(In thousands)

		Maturity (in years)		
	Fair Value	Less Than 1 Year	1 to 5 Years	Over 5 Years
Investments with contractual maturities				
Certificates of Deposit	$ 1,530	$ 1,530	$ –	$ –
Portfolio investments				
Commercial Paper	38,691	38,370	–	321
U.S. Government Agencies and Notes	29,640	29,640	–	–
Total investments with contractual maturities	69,861	$ 69,540	$ –	$ 321
Investments without contractual maturities				
Money Market and Mutual Funds	475,926			
Total Primary Government Investments	$ 545,787			

5. Investments (continued)

Primary Government Investments (continued)

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

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

At September 30, 2013, the PG's investments in money market funds were rated AAAm by Standard & Poor's, and Aaa-mf by Moody's Investor Service. The PG's investment in commercial securities were rated A- by Standard & Poor's, and A2 by Moody's Investor Services. The PG's investment in U.S. government agencies were rated AA+ by Standard & Poor's and Aaa by Moody's Investor Services.

Concentration of Credit Risk – The PG places no limit on the amount that may be invested in one issuer. At September 30, 2013, more than 5% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (52.2%), Federated Government Obligation #5 (17.0%), Chesham FNC/Chesh LLC, CPDS (7.
01%), Invesco Treasury #1930 (6.2%), and Goldman Financial Securities Money Market #474 (5.5%).

Custodial Credit Risk – The PG does not have a custodial risk policy. This is the risk that the PG will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2013, $544.3 million of investments were held in the name of The Bank of New York Trust Company, N.A, as trustee for the Government.

5. Investments (continued)

Pension Trust Fund Investments

Following is a summary of pension trust fund investments as of September 30, 2013:

Pension Trust Fund Investments
(In thousands)

		Maturity (in years)				
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years	No Stated Maturity
Investments with contractual maturities						
US government and agency obligations	$ 3,626	$ 1,012	$ 1,443	$ 490	$ 680	$ –
US Treasury notes	51,514	8,743	24,616	18,155	–	–
US Treasury bonds	4,175	–	–	–	4,175	–
Municipals	4,820	–	921	240	3,659	–
Mutual Funds	525,600	–	–	–	–	525,600
Corporate obligations	33,186	4,051	12,958	9,146	7,031	–
Foreign bonds and government obligations	7,418	656	3,421	–	3,340	–
Mortgage and asset backed securities	41,623	23	5,230	2,529	33,841	–
Investment loan	21,925	–	21,924	–	–	–
Total investments with contractual maturities	693,887	$ 14,485	$ 70,513	$ 30,560	$ 52,726	$ 525,600
Investments without contractual maturities						
Equity Securities						
Common stocks - U.S.	154,876					
Real Estate Investments						
Real estate investment trusts	4,252					
Havensight Mall - US Virgin Islands	66,600					
Renaissance Carambola Beach Resort	12,000					
GERS Complex - US Virgin Islands	28,140					
Limited partnerships	57,693					
Securities lending short-term collateral investment pool	52,361					
Total pension fund investments	$ 1,069,809					

5. Investments (continued)

Pension Trust Fund Investments (continued)

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

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

5. Investments (continued)

Pension Trust Fund Investments (continued)

The credit ratings of GERS debt and equity securities include:

Pension Trust Fund Investment Credit Ratings
(in thousands)

		Credit Ratings	
	Fair Value	**Standard & Poor**	**Moody's**
US government and agency obligations	$ 1,139	AA+	Aaa
US government and agency obligations	726	AA+	Aa2
US government and agency obligations	1,013	AA-	Aa1
US government and agency obligations	258	Not Rated	BBB
US government and agency obligations	490	Not Rated	Not Rated
US Treasury notes	4,175	AA+	Aaa
US Treasury bonds	51,514	AA+	Aaa
Corporate obligations	32,636	BBB- to AA+	Baa3 to Aa1
Corporate obligations	368	BBB-	Not Rated
Corporate obligations	182	Not Rated	Not Rated
Foreign bonds and government obligations	3,427	A1 to AAA	Aaa
Foreign bonds and government obligations	3,991	Not Rated	Baa1 to Aaa
Municipals	3,491	A to AAA	A1 to Aaa
Municipals	1,329	B- to BB+	B3 to B2
Mortgage and asset backed securities	33,753	A+ to AAA	Caa3 to Aaa
Mortgage and asset backed securities	1,986	CCC to A+	Not Rated
Mortgage and asset backed securities	5,884	Not Rated	Not Rated
Common stocks- US	154,876	Not Rated	Not Rated
Real estate investment trust	4,252	Not Rated	Not Rated
Real estate holdings - US Virgin Islands	106,740	Not Rated	Not Rated
Investment loans	21,925	Not Rated	Not Rated
Limited partnership	57,693	Not Rated	Not Rated
Securities lending short-term collateral investment pool	52,361	Not Rated	Not Rated
Mutual funds	525,600	Not Rated	Not Rated
Total investments	$ 1,069,809		

5. Investments (continued)

Pension Trust Fund Investments (continued)

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on loans secured by non-cash collateral amounting to $8.9 million, the entire investment portfolio of GERS was held with a single third-party custodian as of September 30, 2013. Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

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

As of September 30, 2013, $9.4 million of GERS' portfolio was held in foreign cash equivalents and investments, with $2.7 million held in Euro currency, $2.0 million held in pound sterling, $2.8 million held in Australian dollars, $1.9 million in Egyptian pound, and $3 thousand in other currencies. GERS entered into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates, and to facilitate the settlement of foreign security transactions. Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded with interest, dividends, and other income or losses reported at fair value. During the fiscal year ended September 30, 2013, GERS reported $7.6 million in forward currency purchases, $7.3 million in forward currency sales, and a foreign exchange gain of $50 thousand.

5. Investments (continued)

Pension Trust Fund Investments (continued)

***Securities Lending Transactions* –**The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2013 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were no such violations during fiscal year 2013, or losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, (i) in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the loaned securities, (ii) in the case of loaned securities which are not denominated in U.S. dollars or whose primary trading market is not located in the United States, have a market value of 105% of the market value of the loaned securities, or (iii) have a higher value as may be applicable in the jurisdiction in which the loaned securities are customarily traded. Such collateral should be kept, at a minimum, at 100% of the market value of the security for all borrowers throughout the outstanding period of the loans.

At September 30, 2013, approximately $60.4 million of U.S. government and agency securities, fixed income, and equity corporate securities were on loan. The cash collateral received with a corresponding liability of an equal amount is recorded in the statement of fiduciary net position. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2013, such investment pool had a weighted average maturity of 42 days and an average expected maturity of 123 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

5. Investments (continued)

Component Unit Investments

Following is a summary of component unit investments and maturities as of September 30, 2013:

Component Unit Investments
(in thousands)

		Maturity (in years)			
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**Over 10 Years**
Investments with contractual maturities					
Certificates of deposit	$ 8,982	$ 6,307	$ 2,675	$ –	$ –
Mortgage backed securites	–	–	–	–	–
Corporate bonds	708	283	404	–	21
Guaranteed investment contracts	–				–
U.S. Government agencies and notes	43,431	38,784	4,647	–	–
Total investments with contractual maturities	53,121	$ 45,374	$ 7,726	$ –	$ 21
Investments without contractual maturities					
Common stock	6,212				
Mutual funds	6,694				
Other investments	31,808				
Total component unit investments	$ 97,835				

5. Investments (continued)

Component Unit Investments (continued)

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

Credit Risk – The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the component units, as described in Note 1. At September 30, 2013, the University of the Virgin Islands' investments includes corporate bonds with ratings of A- to BBB by Standard & Poor's.

Custodial Credit Risk – The component units of the Government do not have custodial credit risk policies. This is the risk that the component unit will not be able to recover the value of its investments that are held in the possession of an outside party.

6. Receivables

Primary Government Receivables

Receivables for governmental funds at September 30, 2013 consist of the following (expressed in thousands):

	General	PFA Debt Service	Total
Income taxes	$ 256,188	$ –	$ 256,188
Real property taxes	137,277	–	137,277
Hotel occupancy taxes	2,529	–	2,529
Excise taxes	1,681	–	1,681
Gross receipts taxes	–	131,587	131,587
Tax receivables	397,675	131,587	529,262
Less allowance for doubtful accounts	(226,258)	(84,055)	(310,313)
Net tax receivables	$ 171,417	$ 47,532	218,949
Other long-term receivables – Tobacco settlement rights and other			1,748
Total receivables reported in the statement of net assets			$ 220,697

6. Receivables (continued)

Tax Receivables

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

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

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

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

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

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

6. Receivables (continued)

Tax Receivables (continued)

For businesses with gross receipts of $120,000 per annum or less, gross receipts taxes are levied on an annual basis based on the amount of gross receipts in excess of $9,000 per month. Businesses with annual gross receipts greater than $120,000, but less than $225,000, are levied on a monthly basis, based on the amount of gross receipts in excess of $9,000 per month. Businesses with annual gross receipts of more than $225,000 are levied on a monthly basis, based on all gross receipts, with no $9,000 per month exemption.

Gross receipts tax assessment rates, applied to taxable gross receipts, were as follows:

October 1, 2010 through April 30, 2012:	4.0%
June 1, 2012 through February 28, 2013:	4.5%
March 1, 2013 and thereafter:	5.0%

Monthly gross receipts tax filings are due within 30 calendar days following the last day of the calendar month collected. Annual gross receipts tax filings are due within 30 calendar days following the last day of the calendar year.

Other Receivables

In addition to tax receivables, the PG receives tobacco settlement right payments in connection with a Master Settlement Agreement entered into with certain participating cigarette manufacturers. Under the terms of the agreement, the U.S. Virgin Islands receives .0173593% of annual payments made under the agreement. As of September 30, 2013, the PG reported a receivable of $1.6 million for tobacco settlement right payments.

On November 14, 2011, the PG entered into a loan agreement on behalf of GERS in the amount of $13 million, at an interest rate of 4.91% and a maturity date of December 15, 2016. The security for the loan was pledged property tax receipts for tax years prior to, and including, 2005. At September 30, 2013, the outstanding balance of the loan was $8 million, and pledged property tax receipts were sufficient to meet debt service payments.

6. Receivables (continued)

Component Unit and Pension Trust Fund Receivables

Component unit receivables at September 30, 2013, consist of the following (expressed in thousands):

Utility service charges	$	23,918
Port fees		3,827
Students		1,976
Patients		27,968
Other		7,376
Total	$	65,065

Loans and advances receivable, net at September 30, 2013, consist of the following (expressed in thousands):

	Fiduciary Funds Pension Trust	
Mortgage loans	$	7,333
Personal loans		141,687
Other loans and advances		70
Subtotal		149,090
Less allowance for uncollectible accounts		(1,021)
Loans and advances receivable, net	$	148,069

7. Unearned Revenue

The components of unearned revenue for the general fund as of September 30, 2013 consist of the following (expressed in thousands):

Property tax	$ 21,942
Matching excise tax	109,457
Income tax	110,804
	$ 242,203

8. Interfund Transactions

Interfund transfers for the year ended September 30, 2013 consisted of the following (expressed in thousands):

Transfers to	General	PFA Debt Service	PFA Capital Projects	West Indian	Nonmajor Governmental	Total
General	$ –	$ 98,228	$ –	$ 700	$ 3,500	$ 102,428
PFA Debt Service	725	–	584	–	–	1,309
PFA capital projects	–	–	–	–	–	–
Nonmajor governmental	3,283	2,595	–	–	–	5,878
West Indian Company	–	–	–	–	–	–
Total	$ 4,008	$ 100,823	$ 584	$ 700	$ 3,500	$ 109,615
Transfer from						
General	$ –	$ 725	$ –	$ –	$ 3,283	$ 4,008
PFA Debt Service	98,228	–	–	–	2,595	100,823
PFA Capital Projects	–	584	–	–	–	584
Nonmajor governmental	3,500	–	–	–	–	3,500
West Indian Company	700	–	–	–	–	700
Total	$ 102,428	$ 1,309	$ –	$ –	$ 5,878	$ 109,615

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfers to the general fund from other governmental funds included a $98.2 million transfer from the PFA Debt Service Fund (a major governmental fund) representing gross receipt tax revenue in excess of bond debt service requirements, and a $3.5 million transfer from the PFA Operating Fund, representing reprogrammed investment income.

8. Interfund Transactions (continued)

Significant transfers made from the General Fund include a transfer of $2.0 million to the St. Croix Capital Improvement Fund (a non-major governmental fund) and a transfer of $1.0 million to the Crisis Intervention Fund (a non-major governmental fund).

Significant transfers from the PFA Debt Service Fund included a transfer of $2.5 million to the PFA Operating Fund (a non-major governmental fund), representing interest earned from unexpended bond proceeds.

Due From/To Other Funds

The following table summarizes interfund receivables and payables at September 30, 2013 (expressed in thousands):

Due from other funds	General	PFA Debt Service	PFA Capital Projects	Nonmajor Governmental	West Indian Company	Nonmajor Enterprise	Total
General	$ –	$ –	$ –	$ 9,079	$ 4,700	$ 200	$ 13,979
PFA Debt Service	–	–	–	–	–	–	–
PFA capital projects	–	–	–	–	–	31,089	31,089
Nonmajor governmental	16,421	–	–	–	–	2,128	18,549
Total Governmental Funds	16,421	–	–	9,079	4,700	33,417	63,617
Nonmajor enterprise	739	–	–	–	–	–	739
Total Enterprise Funds	739	–	–	–	–	–	739
Total	$ 17,160	$ –	$ –	$ 9,079	$ 4,700	$ 33,417	$ 64,356
Due to other funds							
General	$ –	$ –	$ –	$ 16,421	$ –	$ 739	$ 17,160
PFA Debt Service	–	–	–	–	–	–	–
Nonmajor governmental	9,079	–	–	–	–	–	9,079
Total Governmental Funds	9,079	–	–	16,421	–	739	26,239
West Indian Company	4,700	–	–	–	–	–	4,700
Nonmajor enterprise	200	–	31,089	2,128	–	–	33,417
Total Enterprise Funds	4,900	–	31,089	2,128	–	–	38,117
Total	$ 13,979	$ –	$ 31,089	$ 18,549	$ –	$ 739	$ 64,356

8. Interfund Transactions (continued)

Due From/To Other Funds (continued)

The due from (to) other funds includes the following amounts due from the general fund: $4.9 million due to the emergency molasses fund (a non-major governmental fund) for unpaid appropriations, $3.5 million due to the PFA special revenue fund for unpaid matching funds, and $1.3 million due to the elected governor retirement fund. The due to the General Fund is mainly composed of $5.9 million due from the District Street Lighting Fund (a non-major governmental fund) and $2.7 million owed from the bond proceeds fund (a non-major governmental fund) to the general fund.

The due to other governmental funds includes $6 million due to the St. Croix Capital Improvement Fund from the General Fund for capital improvement projects, $962.6 thousand due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund and $946 thousand due from the Virgin Islands Lottery to the VI Educational Initiative Fund consisting primarily of 15% of revenue derived from lottery games under contract between the Virgin Islands Lottery and private contractors to be transferred to these funds.

The due to PFA Capital Projects funds includes $30.7 million due from the Virgin Islands Next Generation Network (viNGN), a non-major business-type fund in connection with start-up costs in connection with the broadband project.

9. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2013 include cash and cash equivalents as follows (expressed in thousands):

Restricted Assets – Proprietary Funds and Business-type Activities

Unemployment insurance funds	$	9,907
WICO debt service funds		1,957
Total restricted assets of proprietary funds and business-type activities	$	11,864

9. Restricted Assets (continued)

Component Units

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

Restricted Assets – Component Units

Cash and cash equivalents:		
Debt service and sinking fund requirements	$	22,984
Endowment funds		277
HUD project funds		3,366
Revolving loan funds		19,398
Construction funds		359
Renewal and replacement funds		3,714
Other		9,673
Total cash and cash equivalents		59,771
Investments:		
Debt service and sinking fund requirements		31,923
Construction funds		11,573
Endowment funds		33,942
Renewal and replacement funds		4,263
Revolving loan funds		3,768
Other		319
Total investments		85,788
Other:		
Pledged funds		26,062
Total restricted assets of component units	$	171,621

10. Capital Assets

Primary Government

The capital assets activity for the governmental activities for the year ended September 30, 2013, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 193,036	$ 274	$ –	$ –	$ 193,310
Construction in progress	85,687	56,935	(18,644)	483	123,495
Total capital assets not being depreciated	278,723	57,209	(18,644)	483	316,805
Capital assets being depreciated:					
Land improvements	5,305	335	375	–	6,015
Infrastructure	240,167	974	10,534	–	251,675
Buildings and improvements	449,066	2,196	7,735	–	458,997
Machinery and equipment	156,705	3,512	–	–	160,217
Total capital assets being depreciated	851,243	7,017	18,644	–	876,904
Less accumulated depreciation for:					
Land improvements	(3,603)	(210)			(3,813)
Infrastructure	(67,005)	(8,194)		–	(75,199)
Buildings and improvements	(186,716)	(12,791)	–	–	(199,507)
Machinery and equipment	(119,583)	(11,349)	–	–	(130,932)
Total accumulated depreciation	(376,907)	(32,544)	–	–	(409,451)
Total capital assets being depreciated, net	474,336	(25,527)	18,644	–	467,453
Governmental activities capital assets, net	$ 753,059	$ 31,682	$ –	$ 483	$ 784,258

10. Capital Assets (continued)

Primary Government (continued)

Capital assets activity for the business-type activities for the year ended September 30, 2013, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 5,147	$ –	$ –	$ –	$ 5,147
Construction in progress	13,260	36,528	(2,353)	–	47,435
Total capital assets not being depreciated	18,407	36,528	(2,353)	–	52,582
Capital assets being depreciated and amortized:					
Land improvements	348	–	–	–	348
Buildings and improvements	67,867	59	29	–	67,955
Machinery and equipment	10,459	1,471	2,324	(73)	14,181
Intangible	8,064	53	–	–	8,117
Total capital assets being depreciated	86,738	1,583	2,353	(73)	90,601
Less accumulated depreciation and amortization for:					
Land improvements	(341)	(189)	–	–	(530)
Buildings and improvements	(25,663)	(2,414)	–	–	(28,077)
Machinery and equipment	(9,504)	(625)	–	73	(10,056)
Intangible	(454)	(1,585)	–	–	(2,039)
	(35,962)	(4,813)	–	73	(40,702)
Total capital assets being depreciated and amortized, net	50,776	(3,230)	2,353	–	49,899
Business-type activities capital assets, net	$ 69,183	$ 33,298	$ –	$ –	$ 102,481

10. Capital Assets (continued)

Primary Government (continued)

Depreciation expense was charged to functions/programs of the PG for the year ended September 30, 2013 as follows (expressed in thousands):

Governmental activities:		
General government	$	15,153
Public safety		1,823
Health		975
Education		5,768
Public Housing and Welfare		339
Culture and recreation		422
Transportation and communication		8,064
Total depreciation expense – governmental activities	$	32,544
Business-type activities:		
WICO – depreciation	$	1,970
Other enterprise funds – depreciation		2,843
Total depreciation – business-type activities	$	4,813

10. Capital Assets (continued)

Component Units

The capital assets activity for the discretely-presented component units for the year ended September 30, 2013 is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposal	Ending Balance
Capital assets not being depreciated:					
Land	$ 94,677	$ 2,301	$ –	$ –	$ 96,978
Construction in progress	70,909	44,309	(23,795)	1,659	89,764
Total capital assets not being depreciated	165,586	46,610	(23,795)	1,659	186,742
Capital assets being depreciated:					
Buildings and improvements	1,700,633	13,079	20,279	273	1,733,718
Airport and marine terminal facilities	148,339	–	1,308	–	149,647
Personal property and equipment	150,989	7,694	2,208	249	160,642
Intangible assets	2,604	–	–	–	2,604
Total capital assets being depreciated	2,002,565	20,773	23,795	522	2,046,611
Less accumulated depreciation:					
Buildings and improvements	(958,137)	(57,274)	–	188	(1,015,223)
Airport and marine terminal facilities	(108,845)	(6,746)	–	–	(115,591)
Personal property and equipment	(103,468)	(7,168)	–	170	(110,466)
Intangible assets	(448)	–	–	–	(448)
Total accumulated depreciation	(1,170,898)	(71,188)	–	358	(1,241,728)
Total capital assets being depreciated, net	831,667	(50,415)	23,795	880	804,883
Component unit capital assets, net	$ 997,253	$ (3,805)	$ –	$ 2,539	$ 991,625

10. Capital Assets (continued)

Component Units (continued)

Depreciation expense charged by each component unit for the year ended September 30, 2013 was as follows (expressed in thousands):

Virgin Islands Housing Authority	$	6,449
Virgin Islands Port Authority		20,451
Virgin Islands Water and Power Authority:		
Electric System		23,320
Water System		4,285
Virgin Islands Government Hospital and Health Facilities Corporation:		
Roy L. Schneider Hospital		4,269
Juan F. Luis Hospital		3,190
University of the Virgin Islands		3,131
Other component units		6,093
Total depreciation expense– component units	$	71,188

11. Long-Term Liabilities

The change in long-term bonds and loans for governmental activities was as follows for the year ended September 30, 2013 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Bonds payable:						
2013 A Revenue Bonds	$ –	$ 36,000	$ –	$ 36,000	$ –	$ 36,000
2012 C Revenue Bonds	–	35,115	–	35,115	1,670	33,445
2012 Series A & B Revenue and Refunding Bonds	–	228,805	–	228,805	10,460	218,345
2012 Series A Revenue Bonds	142,640	–	–	142,640	–	142,640
2010 Series A & B Revenue Bonds	399,050	–	(1,990)	397,060	2,065	394,995
2009 Series A Revenue Bonds (Cruzan)	38,075	–	(585)	37,490	605	36,885
2009 Series A-1, B & C Revenue and Refunding Bonds	420,730	–	(24,145)	396,585	25,355	371,230
2009 Series A Revenue Bonds (Diageo)	250,000	–	–	250,000	4,040	245,960
2006 Series A Revenue Bonds	211,680	–	(2,805)	208,875	2,905	205,970
2006 Series A Tobacco Bonds	7,290	–	–	7,290	–	7,290
2004 Series A Revenue Bonds	71,430	–	(3,995)	67,435	4,195	63,240
2003 Series A Revenue Bonds	245,325	–	(3,815)	241,510	4,010	237,500
2001 Series A Tobacco Bonds	14,180	–	(1,535)	12,645	1,405	11,240
1999 Series A Revenue Bonds	74,165	–	(74,165)	–	–	–
Total bonds payable	1,874,565	299,920	(113,035)	2,061,450	56,710	2,004,740
Plus (less):						
Deferred losses on refundings	(14,126)	–	854	(13,272)	(854)	(12,418)
Bonds premium	35,499	16,942	(2,319)	50,122	2,656	47,466
Bonds discount	(4,728)	(164)	1,359	(3,533)	(177)	(3,356)
Bonds accretion	3,794	706	–	4,500	4,500	–
Total bonds payable, net	1,895,004	317,404	(113,141)	2,099,267	62,835	2,036,432
Loans payable:						
Series 2013A Note	–	2,660	(296)	2,364	886	1,478
Series 2013B Note	–	40,000	(40,000)	–	–	–
Series 2012A Tax Increment Financing	15,700		(2,175)	13,525	245	13,280
Series 2011 B Note	10,141	–	(2,098)	8,043	178	7,865
Series 2011 A Note	29,915	–	(29,915)	–	–	–
Series 2010 A Working Capital Notes	131,400	–	(131,400)	–	–	–
Series 2009 Note	4,266	–	(1,639)	2,627	1,728	899
Total loans payable	191,422	42,660	(207,523)	26,559	3,037	23,522
Total governmental bonds and loans	$ 2,086,426	$ 360,064	$ (320,664)	$ 2,125,826	$ 65,872	$ 2,059,954

11. Long-Term Liabilities (continued)

The change in other long-term liabilities for governmental activities was as follows for the year ended September 30, 2013 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Other liabilities:						
Accrued compensated absences	$ 72,870	$ –	$ (21,588)	$ 51,282	$ 5,239	$ 46,043
Retroactive union arbitration	195,286	–	–	195,286	–	195,286
Litigation	12,908	7,956	(7,810)	13,054	137	12,917
Landfill closure and postclosure costs	72,398	23,412	–	95,810	–	95,810
Accrued arbitrage rebate	13,635	–	(13,635)	–	–	–
Post employment benefit	245,079	39,895	–	284,974	–	284,974
Total other liabilities	$ 612,176	$ 71,263	$ (43,033)	$ 640,406	$ 5,376	$ 635,030

Accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post-closure costs, accrued arbitrage rebates and post-employment benefits to retirees such as health insurance, are generally expected to be liquidated with resources derived from the general fund.

Changes in long-term liabilities for business-type activities were as follows for the year ended September 30, 2013 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Business-type activities:						
Workers compensation claims	$ 26,661	$ 9,903	$ (12,773)	$ 23,791	$ 3,047	$ 20,744
Loan payable - US Treasury	41,747	38,000	(3,341)	76,406	76,406	–
Note payable - WICO	21,764	–	(525)	21,239	–	21,239
Total business-type activities	$ 90,172	$ 47,903	$ (16,639)	$ 121,436	$ 79,453	$ 41,983

11. Long-Term Liabilities (continued)

Debt Margin

Pursuant to 48 U.S.C. Section 1574(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is in excess of 10% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to cause to be issued bonds or other obligations in anticipation of the matching funds to be received from the federal government pursuant to 26 U.S.C. Section 7652(b)(3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. Section 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for the purpose of financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b).

On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds. As used in Title 2 of the V.I. Code Section 256, the term "debt" means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term "debt" does not include that portion of principal or interest on bonds that is not yet due and payable.

11. Long-Term Liabilities (continued)

Bonds Payable

Bonds payable outstanding at September 30, 2013 are comprised of the following (thousands):

Primary Government - Bonds Payable

Bonds Payable	Maturity	Rates (%)	Balance
2013 Series A Revenue Refunding Bonds	2024	5.00 - 5.25	$ 36,000
2012 Series C Revenue Bonds	2042	4.00 - 5.00	35,115
2012 Series A & B Revenue			
and Refunding Bonds	2032	2.25 - 5.25	228,805
2012 Series A Revenue Bonds	2032	4.00 - 5.00	142,640
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	397,060
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	37,490
2009 Series A-1, B & C Revenue			
and Refunding Bonds	2040	3.00 - 5.00	396,585
2009 Series A Revenue Bonds (Diageo)	2038	6.00 - 6.75	250,000
2006 Series A Revenue Bonds	2029	3.50 - 5.00	208,875
2006 Series A, B, C & D Tobacco			
Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2004 Series A Revenue Bonds	2024	4.00 - 5.25	67,435
2003 Series A Revenue Bonds	2033	4.00 - 5.25	241,510
2001 Series A Tobacco Bonds	2031	5.00	12,645
Subtotal			2,061,450
Plus (less):			
Deferred costs on refundings			(13,272)
Bonds premium			50,122
Bonds discount			(3,533)
Bonds accretion			4,500
Total			$ 2,099,267

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On September 19, 2013, the Public Finance Authority ("PFA") issued the 2013 Series A Revenue Refunding Bonds (the "2013 Series A Bonds"), the proceeds of which amounted to $36.0 million. The Government has pledged matching funds, described below, for the timely payment of the principal and interest on the 2013 Series A Bonds. The 2012 Series A Bonds bear interest at rates ranging from 5.00% to 5.25%, and mature on October 1, 2018 to October 1, 2024. The bonds were issued to: (i) provide a partial advance refunding of the 2004 Series A Bonds amounting to $14.7 million, provide a partial advance refunding of the 2009 Series A-1 Bonds amounting to $1.6 million, and provide a partial advance refunding of the 2009 Series B Bonds amounting to $16.7 million, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds. The October 1, 2014 advance refunding resulted in a net present value economic gain of $4.2 million.

The 2013 Series A Bonds maturing on October 1, in the years 2018 and 2024 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption beginning October 1, 2015.

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

The amount required to be remitted to the Government by the U.S. Department of the Treasury is an amount no greater than the total amount of local revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term "matching fund revenue" is used to denote these payments.

Amounts to be received by the Government from federal rum excise tax are deposited directly into trust accounts in accordance with the Indenture of Trust for bond debt service payments. The amounts to be received are subject to adjustment for the amount of local revenue actually collected by the U.S. Department of the Treasury during such year. Prepayments of matching fund revenue are recorded as deferred revenue in the accompanying statement of net position, and recognized as income in the subsequent fiscal year.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

The rate of federal rum excise tax is determined by Congress. In November 1999, Congress increased the federal rum excise tax rate from $10.50 to $13.25 per proof gallon. Since then, Congress has extended the higher rate seven times. Under the American Taxpayer Relief Act of 2013, the rate was in effect through December, 31, 2013.

On September 1, 2013, PFA issued the 2012 Series A (Working Capital) Revenue Bonds, the proceeds of which amounted to $142.6 million. The Government has pledged matching funds, described below, for the timely payment of the principal and interest on the 2012 Series A Revenue Bonds. The 2012 Series A Bonds bear interest at rates ranging from 4.00% to 5.00%, and mature from 2014 to 2032. The bonds were issued to: (i) provide working capital to the PG to finance various operating expenses, (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds.

The 2012 Series A Bonds maturing on October 1, in the years 2022, 2027, and 2032 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

On December 19, 2012, PFA issued the 2012 Series C Revenue Bonds, the proceeds of which amounted to $35.15 million. The Government has pledged gross receipts taxes, for the timely payment of the principal and interest on the 2012 Series C Bonds. The 2012 Series C Bonds, bear interest at rates ranging from 4.00% to 5.00% and mature from 2014 to 2042.

The Series 2012 C Bonds were issued to: (i) finance the costs of certain energy and water conservation projects in the Territory (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds. The 2012 Series C Bonds maturing on October 1, in the years 2017, 2030 and 2042 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On November 20, 2012, PFA issued the 2012 Series A and B Revenue and Refunding Bonds, the proceeds of which amounted to $228.8 million. The Government has pledged gross receipts taxes, for the timely payment of the principal and interest on the 2012 Series A and B Revenue and Refunding Bonds. The 2012 Series A Bonds, amounting to $197.0 million, bear interest at rates ranging from 2.25% to 5.00% mature from 2013 to 2032. The 2012 Series B Bonds, amounting to $31.7 million, bear interest at the rate of 5.25% and mature from 2013 to 2027.

The Series 2012 A Bonds were issued to: (i) refund the 1999 Series A Bonds, (ii) repay the Series 2010 A-1 and 2010 A-2 Notes, (iii) fund the debt service requirements of the bond issuance, and (iv) pay the costs of issuing the bonds. The 2012 Series A Bonds maturing on October 1, in the years 2017, 2022 and 2032 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption. The current refunding of the Series 1999 A Bonds resulted in an economic gain of net present value savings of $7.7 million.

The Series 2012 B Bonds were issued to: (i) refinance the Series 2011 A Note (ii) fund the debt service requirements of the bond issuance, and (iii) pay the costs of issuing the bonds. The 2012 Series B Bonds maturing on October 1, 2027 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

On July 8, 2010, PFA issued the 2010 Series A and B Revenue Bonds, the proceeds of which amounted to $399.0 million. The Government has pledged matching funds for the timely payment of the principal and interest on the 2010 Series A and B Revenue Bonds. The 2010 Series A Bonds, amounting to $305.0 million, bear interest at rates ranging from 4.00% to 5.00% mature from 2013 to 2029. The 2010 Series B Bonds, amounting to $94.0 million, bear interest at rates ranging from 5.00% to 5.25% and mature from 2025 to 2029.

The bonds were issued to: (i) provide working capital to the PG to finance various operating expenses, (ii) refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (iii) fund the debt service requirements of the bond issuance, and (iv) to pay the costs of issuing the bonds.

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

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

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

On December 17, 2009, PFA issued the 2009 Series A Revenue Bonds (the "Cruzan Bonds") amounting to $39.1 million. The Government has pledged matching funds generated from the sale of Cruzan rum products for the timely payment of the principal and interest of the Cruzan Bonds. The Cruzan Bonds bear interest at rates ranging from 3.00% to 6.00% and mature from 2010 to 2039. The proceeds of the Cruzan Bonds were used to: (i) finance the costs of a wastewater treatment facility and renovations at the Cruzan VIRIL, Ltd. ("Cruzan") rum distillery on the island of St. Croix, (ii) fund debt service reserve accounts and (iii) pay the costs of issuing the bonds. The bonds maturing October 1, 2039 are subject to mandatory sinking fund redemptions beginning October 1, 2020, at a redemption price equal to 100% of the principal amount plus interest accrued to the date of redemption.

In association with the issuance of the Cruzan Bonds, the Government entered into an agreement with Cruzan on October 6, 2009, to provide marketing support payments, production incentive payments, continuation of molasses subsidies and other tax incentives to retain Cruzan as part of the rum industry in the U.S. Virgin Islands. Marketing and incentive payments to Cruzan amounted to $44.9 million, $33.5 million, $54.7 million and $3.9 million for the years ended September 30, 2013, 2012, 2011 and 2010.

On October 1, 2009, PFA issued the 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds, the proceeds of which amounted to $458.8 million. The Government has pledged matching funds for the timely payment of principal and interest on the 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds. The 2009 Series A-1 Bonds amounted to $86.3 million. The 2009 Series A-1 Bonds bear interest at rates ranging from 3.00% to 5.00% and mature from 2010 to 2039. The Series A-1 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

The 2009 Series A-2 Bonds amounted to $8.6 million. The 2009 Series A-2 Bonds bear an interest rate of 3.00% and mature from 2010 to 2012. The Series A-2 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts and (iii) pay certain costs of issuing the bonds.

The 2009 Series B Bonds amounted to $266.3 million, bear an interest rate of 5.00%, and mature from 2010 to 2025. The 2009 Series B Bonds were issued to: (i) current refund the 1998 Series A Bonds, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

The 2009 Series C Bonds amounted to $97.5 million, bear an interest rate of 5.00% and mature from 2010 to 2022. The 2009 Series C Bonds were issued to: (i) current refund the 1998 Series E Revenue and Refunding Bonds, (ii) fund debt service reserve accounts and (iii) pay certain costs of issuing the bonds.

The current refunding of the 1998 Series A and E Bonds, on October 28, 2009, was made in order to obtain lower interest rates. The economic gain obtained by this current refunding is the difference between the present value of old debt service requirements and the new debt service.

This refunding resulted in a debt service saving of approximately $35.9 million and an economic gain of approximately $35.6 million.

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

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On July 9, 2009, PFA issued the 2009 Series A Bonds (the “Diageo Bonds”) amounting to $250 million. The Diageo Bonds mature from 2013 to 2038 at interest rates ranging from 6.00% to 6.75%. The proceeds of the bonds were issued to: (i) provide a grant to Diageo USVI, Inc. (the producer of Captain Morgan rum products) to construct a rum distillery and warehouse on the island of St. Croix, (ii) to redeem the Subordinated Revenue Bond Anticipation Notes Series 2009A issued to finance preliminary costs of the Diageo construction project, (iii) to fund debt service reserve accounts, and (iv) to finance capitalized interest and costs associated with the issuance of the bonds.

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

In association with the issuance of the Diageo Bonds, the Government entered into an agreement with Diageo USVI, Inc. on June 17, 2008, to provide marketing support payments, production incentive payments, continuation of molasses subsidies and other tax incentives to attract Diageo USVI, Inc. as part of the rum industry in the U.S. Virgin Islands. Marketing and incentive payments to Diageo USVI, Inc. amounted to $39.1 million and $23.1 million for the years ended September 30, 2013 and 2012.

On September 28, 2006, PFA issued the 2006 Series Gross Receipts Revenue Bonds (“2006 Series Bonds”), the proceeds of which amounted to $219.5 million. The Government has pledged gross receipts tax revenues for the timely payment of the principal and interest on the 2006 Series Bonds. The 2006 Series Bonds bear interest at 3.50% to 5.00% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) advance refund a portion of the Series 1999A Revenue Bonds, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund debt service reserve accounts, (v) pay certain costs of issuing the Series 2006 Bonds, and (vi) fund a net payment reserve account for a new swap agreement in connection with the refunding. The 2006 Series Bonds maturing on or before October 1, 2016 are not subject to optional redemption.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

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

The proceeds of the 2006 Series Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the 1999 Series A Bonds. Approximately $180.0 million in funds were deposited into the Escrow Fund accounts. At September 30, 2013, $162.9 million of the defeased 1999 Bonds remained outstanding.

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

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

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On December 1, 2004, PFA issued the 2004 Series A Bonds, the proceeds of which amounted to $94.0 million. The Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2024. The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating, and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix, (ii) finance the repairs, renovations, and construction of solid waste facilities in the Territory, (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the Virgin Islands Waste Management Authority, (v) fund the Series 2004A Senior Lien Debt Service Reserve Subaccount, and (vi) pay certain costs of issuing the Series 2004A Bonds. The Series 2004A Bonds are not subject to optional redemption prior to October 1, 2014. On September 19, 2013, PFA issued the Series 2013A Bonds to partially refund the Series 2004 A Bonds for principal payments due October 1, 2013, 2017 and 2018 amounting to $14.7 million.

On December 17, 2003, PFA issued the Series 2003A Revenue Bonds, the proceeds of which amounted to approximately $268.0 million. The bonds were issued to: (i) repay the Government outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund debt service accounts for the bond issuance, and (iv) to pay certain costs of issuing the bonds. The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the Series 2003A Revenue Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. The Series 2003A Revenue Bonds are not subject to optional redemption prior to October 1, 2014.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Asset-Backed Series A Bonds amounting to $23.7 million of the aggregate principal. The proceeds were used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the master settlement agreement (MSA) entered into by participating cigarette manufacturers, (ii) issuance of Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) to provide funds for hospital and healthcare projects in the U.S. Virgin Islands.

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

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

The 2001 Series A Tobacco Bonds payable at September 30, 2013 amounted to $12.6 million. Under early redemption provisions, any MSA payments exceeding annual debt service requirements of the 2001 Series A Tobacco Bonds must be applied to early redemption of principal. MSA payments and interest earnings on the trust funds during the year ended September 30, 2013, resulted in early redemption of $200 thousand during fiscal year 2013.

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

On September 28, 2006, PFA advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2020 to October 1, 2029 totaling $162.9 million. The proceeds of the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the bonds. Approximately $180 million was deposited with the refunding bond escrow agent to fund the Escrow Fund accounts. At September 30, 2013, $162.9 million of the defeased 1999 Series A Revenue Bonds remain outstanding.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On December 14, 2012, PFA current refunded the Series 1999 A Bonds with maturity dates of October 1, 2013 to October 1, 2020 totaling $66.8 million with the issuance of the Series 2012A Revenue and Refunding Bonds. The current refunding of the Series 1999 A Bonds resulted in an economic gain of net present value savings of $7.7 million.

On May 1, 1998, PFA issued the 1998 Series A and B Bonds to advance refund previously issued bonds to obtain lower interest rates. The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993, and Series 1994 Bonds. At September 30, 2013, $88.4 million of the above-mentioned defeased bonds were outstanding.

On June 15, 1992, PFA issued the Series 1992 Revenue Bonds. 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, 2013, $89.3 million of the defeased bonds were outstanding. Assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government’s basic financial statements.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

Governmental Activities – Bonds

	Tobacco Bonds Series 2001 A		Revenue Bonds Series 2003 A		Revenue Bonds Series 2004 A		Revenue Bonds Series 2006		Tobacco Bonds Series 2006		Revenue Bonds Series 2009 A (Diageo)	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2014	$ 1,405	$ 632	$ 4,010	$ 12,066	$ 4,195	$ 3,414	$ 2,905	$ 10,049	$ –	$ –	$ 4,040	$ 16,581
2015	–	562	4,210	11,861	4,405	3,200	3,015	9,901	–	–	4,290	16,332
2016	–	562	4,420	11,639	4,625	2,967	3,125	9,748	–	–	4,575	16,048
2017	–	562	4,655	11,401	4,865	2,718	3,240	9,589	–	–	4,890	15,729
2018	–	562	4,895	11,150	5,120	2,456	3,360	9,423	–	–	5,235	15,387
2019 - 2023	3,195	2,490	28,625	51,513	29,935	7,841	56,155	42,050	–	–	32,155	70,954
2024 - 2028	–	2,011	36,690	43,266	14,290	760	94,300	22,006	–	–	44,800	58,302
2029 - 2033	8,045	1,207	117,310	27,704	–	–	42,775	1,913	–	–	62,485	40,622
2034 - 2038	–	–	36,695	917	–	–	–	–	48,145	–	87,530	15,567
Less unamortized discount	–	–	–	–	–	–	–	–	(40,855)	–	–	–
Total	$ 12,645	$ 8,588	$ 241,510	$ 181,517	$ 67,435	$ 23,356	$ 208,875	$ 114,679	$ 7,290	$ –	$ 250,000	$ 265,522

	Revenue Bonds Series 2009 A-1		Revenue Bonds Series 2009 B		Revenue Bonds Series 2009 C		Revenue Bonds Series 2009 A (Cruzan)		Revenue Bonds Series 2010 A		Revenue Bonds Series 2010 B	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2014	$ 1,600	$ 3,881	$ 16,740	$ 11,170	$ 7,015	$ 3,974	$ 605	$ 2,186	$ 2,065	$ 15,067	$ –	$ 4,833
2015	1,650	3,830	17,600	10,311	7,210	3,618	640	2,154	2,155	14,983	–	4,833
2016	1,705	3,773	18,505	9,409	7,745	3,244	670	2,122	2,270	14,883	–	4,833
2017	1,770	3,710	19,450	8,460	8,040	2,850	705	2,087	2,395	14,766	–	4,834
2018	1,840	3,640	20,450	7,462	8,440	2,438	740	2,051	2,520	14,643	–	4,834
2019 - 2023	10,500	16,897	102,485	20,878	44,535	5,517	4,360	9,600	31,420	70,712	3,755	23,988
2024 - 2028	13,320	14,079	36,535	3,102	–	–	5,875	8,092	159,950	48,636	61,065	15,881
2029 - 2033	17,085	10,312	–	–	–	–	7,930	6,036	100,235	5,074	29,230	1,555
2034 - 2038	21,935	5,458	–	–	–	–	10,700	3,262	–	–	–	–
2039 - 2043	10,430	528	–	–	–	–	5,265	321	–	–	–	–
Total	$ 81,835	$ 66,108	$ 231,765	$ 70,792	$ 82,985	$ 21,641	$ 37,490	$ 37,911	$ 303,010	$ 198,764	$ 94,050	$ 65,591

	Revenue Bonds Series 2012 A		Revenue & Refunding Series 2012 A		Revenue Bonds Series 2012 B		Revenue Bonds Series 2012 C		Revenue Bonds Series 2013 A		Total Government Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:												
2014	$ –	$ 7,044	$ 9,030	$ 8,037	$ 1,430	$ 1,629	$ –	$ 1,616	$ –	$ 976	$ 55,040	$ 103,155
2015	800	7,028	9,940	7,824	1,505	1,552	1,670	1,591	–	1,830	59,090	101,410
2016	825	6,995	10,815	7,590	1,585	1,470	1,720	1,540	2,210	1,774	64,795	98,597
2017	850	6,962	11,110	7,344	1,670	1,385	1,775	1,488	2,320	1,661	67,735	95,546
2018	900	6,927	11,415	7,090	1,765	1,295	1,820	1,434	7,555	1,415	76,055	92,207
2019 - 2023	5,450	34,028	27,585	30,769	10,340	4,944	8,870	5,968	18,015	3,335	417,380	401,484
2024 - 2028	7,500	32,566	40,420	24,576	13,445	1,839	2,385	4,528	5,900	310	536,475	279,954
2029 - 2033	126,315	21,850	76,750	10,078	–	–	3,680	3,821	–	–	591,840	130,172
2034 - 2038	–	–	–	–	–	–	5,775	2,606	–	–	210,780	27,810
2039 - 2043	–	–	–	–	–	–	7,420	964	–	–	23,115	1,813
Less unamortized discount	–	–	–	–	–	–	–	–	–	–	(40,855)	–
	$ 142,640	$123,400	$ 197,065	$ 103,308	$ 31,740	$ 14,114	$ 35,115	$ 25,556	$ 36,000	$ 11,301	$ 2,061,450	$ 1,332,148

11. Long-Term Liabilities (continued)

Notes Payable

On August 22, 2013, PFA issued the Series 2013B Subordinate Lien Revenue Anticipation Note ("Series 2013B Note") amounting to $40.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2013B Note. The Series 2013B Note bears interest at 6.0% and requires payment in full by September 30th of each fiscal year under the redemption provisions of the Note. The Series 2013B Note was issued to: (i) finance a settlement with the Internal Revenue Service in connection with an audit of the Series 2006 Bonds, (ii) to finance certain operating expenses of the PG, and (iii) to fund certain costs of issuing the Series 2013B Note. On September 30, 2013, the Series 2013B Note was redeemed in full.

On May 14, 2013, PFA issued the Series 2013A Subordinate Lien Revenue Note ("Series 2013A Note") amounting to $6.7 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2013A Note. The Series 2013A Note bears interest at the 90 day Libor rate plus 375 points to be paid in thirty-six (36) monthly payments. The Series 2013A Note was issued to: (i) finance the acquisition of a fleet of police vehicles for the PG, and (ii) to fund certain costs of issuing the Series 2013A Note.

Debt service requirements for the Series 2013A Notes at September 30, 2013 are as follows (expressed in thousands):

Year	Principal
2014	$ 887
2015	886
2016	591
	$ 2,364

11. Long-Term Liabilities (continued)

Notes Payable

On October 1, 2012, PFA entered into the Series 2012A Tax Increment Revenue Term Loan Note (the “Series 2012A Notes”) in the amount of $13.7 million. The Series 2012A Notes were issued as part of a Term Loan Note Conversion of the Series 2009A Notes which were issued to provide a loan to the PG (the “Series 2009A Tax Increment Revenue Loan Note”) to finance the developmental costs of a shopping complex on the island of St. Croix. The Series 2012A Notes are a term loan with twenty quarterly payments (five years) based on a twenty-five (25) year amortization schedule, with a final payment on October 1, 2018. The Notes bear interest of 300 points above the J.P. Morgan Chase Prime Rate, or 6.25%, whichever is higher. As of September 30, 2013, PFA had $13.5 million in outstanding Series 2012A Notes.

Debt service requirements for the Series 2012A Notes at September 30, 2013 were as follows (expressed in thousands):

Year	Principal	Interest
2014	$ 245	$ 851
2015	261	835
2016	275	821
2017	295	801
2018	12,449	199
	$ 13,525	$ 3,507

On November 14, 2011, PFA entered into the 2011 Property Tax Revenue Anticipation Note (the “Series 2011B Note”) in the amount of $13.0 million. The proceeds were used to pay incentive payments to government employees who elected to retire early under Act No. 7261 the “Economic Stability Act”, as amended by Acts No. 7270 and 7307. The Series 2011B Note is a general obligation of the PG, secured by a first priority lien on real property taxes levied for tax years up to and including tax year 2005. Also, the PG has pledged a third subordinate lien on the gross receipts taxes, along with all fines, interest, penalties and other charges related to gross receipts taxes. Interest on the Series 2011B Note accrues monthly at the rate of 4.91% until the Series 2011B Note reaches maturity on December 15, 2016. On that date, the Series 2011B Note will convert to a two year term loan. As of September 30, 2013, the outstanding amount of the Series 2011B Note was $8.04 million.

11. Long-Term Liabilities (continued)

Notes Payable

Debt service requirements for the Series 2011B Note at September 30, 2013 were as follows (expressed in thousands):

Year	Principal	Interest
2014	178	386
2015	–	386
2016	–	386
2017	7,865	89
	$ 8,043	$ 1,247

On April 29, 2011, PFA entered into the Subordinate Lien Revenue Bond Anticipation Notes (the "Series 2011A Notes"), in the amount of $32.2 million, for the purpose of upgrading the broadband infrastructure, equipment and technology in the U.S. Virgin Islands. The Series 2011A Notes are a general obligation of the PG, secured by gross receipts taxes. Interest on the Series 2011A Notes accrued quarterly at the rate of 4.75% until the Notes reached maturity on April 29, 2013. On that date the Notes were converted to a term loan with Banco Popular de Puerto Rico in the amount of $32.2 million at an interest rate of 6.25% for sixty (60) months. On November 20, 2012, the Series 2011A Notes were defeased with the issuance of the Series 2012 B Revenue and Refunding Bonds.

On November 4, 2010, PFA entered into the Subordinated Lien Revenue Bond Anticipation Notes (the "Series 2010A Notes"), which modified and amended the Series 2009B Notes, extending the maturity date to October 1, 2013, with a maximum amount of $78.84 million from the Agent Lender and $52.56 million from the Syndicate Lender. The Series 2010A Notes are a general obligation of the PG, secured by gross receipts taxes and, commencing October 1, 2013, a set-aside amount equal to four percent (4%) of matching fund revenues. The Series 2010A Notes accrue interest at a rate of 400 points above the 90-day LIBOR rate, not to be less than a minimum rate of 5.50%, with interest payments due on the first business day of the month. On December 13, 2012, the Series 2010A Notes were defeased with the issuance of the Series 2012 A Revenue and Refunding Bonds.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

In August 2009, the territory reserve balance of the Unemployment Trust Fund (UTF) became inadequate to cover expenditures for unemployment compensation (UC) benefits. UC benefits are an entitlement program administered through the U.S. Treasury, and the PG is legally liable to pay benefits even if the UTF becomes insolvent. As of September 30, 2013, the PG had borrowed $76.4 million from the U.S. Treasury.

The American Recovery and Reinvestment Act of 2009 (P.L. 111-5 Section 2004) temporarily waived interest payments on UTF loans through September 30, 2012. Beginning in 2012, the loan became subject to interest at a federal rate of 2.943% and the PG paid $1.07 million in fiscal year 2012. As of September 30, 2013, the effective interest rate was 2.387% and the PG owed $1.3 million in interest to the UTF.

On February 12, 2009, PFA issued the Subordinate Lien Revenue Bond Anticipation Notes ("Series 2009 Notes"), in the amount of $8 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2009 Notes. The Series 2009 Notes initially had an interest rate of 4.75% and a due date of February 1, 2010. PFA elected a conversion of the Series 2009 Notes to term notes with principal and interest payable semi-annually on February 1 and August 1, at an interest rate of 5.40% and a maturity date of August 1, 2015. The proceeds of the Series 2009 Notes were issued: (i) to finance the purchase and installation of 911 emergency communication equipment for the Virgin Islands Police Department and (ii) to pay certain costs of issuing the Series 2009 Notes.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

Debt service requirements for the Series 2009 Notes at September 30, 2013, were as follows (expressed in thousands):

Year	Principal	Interest
2014	1,728	119
2015	899	24
Total	$ 2,627	$ 143

On June 1, 2008, WICO refinanced its outstanding notes payable and obtained an additional $2.3 million in financing for infrastructure improvements. The consolidated notes amounted to $23.6 million, to be repaid in 120 consecutive monthly installments of $154,953 at a fixed interest rate of 6.2%, plus a final payment of the balance of principal, plus any unpaid interest, in 2018. The notes may be prepaid, in whole, or in part, at any time without penalty.

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

As of September 30, 2013, WICO was in compliance with note covenants requiring certain minimum operating revenue thresholds, and the maintenance of a debt service reserve account equal to one year’s debt service payments.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

Debt service requirements for the WICO loan at September 30, 2013, were as follows (expressed in thousands):

Year:	Principal
2014	$ –
2015	603
2016	642
2017	682
2018	19,311
Total	$ 21,238

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.

11. Long-Term Liabilities (continued)

Standby Credit Facility

On October 9, 2010, PFA entered into a standby credit facility ("credit facility") with Banco Popular de Puerto Rico in an aggregate principal amount of up to $45.0 million. The purpose of the credit facility was to provide financial liquidity for payments required under Chapter 10 of Title 22 of the VIC upon the failure of a Virgin Islands insurance carrier. Under that legislation, the Virgin Islands Insurance Guaranty Fund was required to maintain a minimum balance of $50.0 million for claimant payments. The credit facility was secured and payable from gross receipts taxes.

The initial term of the credit facility was three (3) years at an interest rate on drawn funds equal to the 90-Day LIBOR plus 400 basis points with a minimum rate of 5.50%, payable quarterly in advance, with an option to extend the credit facility for an additional three (3) year term.

On February 10, 2012, legislation was enacted authorizing a reduction in the minimum balance to be held by the Virgin Islands Insurance Guaranty Fund from $50.0 million to $10.0 million until September 30, 2015. That legislation was amended on August 9, 2013, to authorize the PG to issue bonds or notes of up to $40.0 million on behalf of the Insurance Guaranty Fund, if necessary for claimant payments. The authorization will terminate on the earlier of (i) the date that funds on deposit in the Insurance Guaranty Fund equal $50.0 million dollars, or (ii) March 31, 2019.

On September 9, 2013, the standby credit facility with Banco Popular de Puerto Rico was cancelled. As of September 30, 2013, the balance reported by the PG in the Insurance Guaranty Fund was $27.1 million.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable

Bonds payable of discretely-presented component units are those liabilities that are paid out of resources pledged by such entities. Bonds payable, outstanding at September 30, 2013, are as follows (expressed in thousands):

Bonds Payable	Maturity	Interest Rates (%)	Balance
Virgin Islands Water and Power Authority (Electric System)			
Revenue bonds of 2012	2025	4.00 - 6.06	$ 69,145
Revenue bonds of 2010	2033	4.00 - 6.85	76,305
Revenue bonds of 2007	2031	4.50 - 5.00	57,585
Revenue bonds of 2003	2023	4.00 – 5.00	55,855
Virgin Islands Water and Power Authority (Water System)			
Revenue bonds of 1998	2017	5.00 - 5.5	16,520
Virgin Islands Port Authority			
Series A Revenue bonds of 2003	2023	5.00 – 5.25	18,005
Series B Revenue bonds of 2003	2015	3.73 – 5.43	3,435
Series C Revenue bonds of 2003	2023	4.40	6,850
Subtotal			303,700
Plus unamortized premium			3,824
Less unamortized discount			(88)
Bonds payable, net			307,436
Less amount due within one year			(15,359)
Bonds payable, due in more than one year			$ 292,077

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Following is a schedule of changes in bonds payable, loans payable and other long-term liabilities for discretely-presented component units for fiscal year ended September 30, 2013 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable:						
Virgin Islands Water and Power Authority:						
Electric System	$ 270,335	$ –	$ (7,694)	$ 262,641	$ 10,145	$ 252,496
Water System	19,225	–	(2,793)	16,432	2,960	13,472
Virgin Islands Port Authority	30,762	–	(2,399)	28,363	2,254	26,109
Virgin Islands Housing Finance Authority	2,150	–	(2,150)	–	–	–
Total bonds payable, net	322,472	–	(15,036)	307,436	15,359	292,077
Notes payable:						
Virgin Islands Economic Development Authority	417	–	(25)	392	24	368
Virgin Islands Water and Power Authority:			–			
Electric System	11,027	–	(2,679)	8,348	2,672	5,676
Virgin Islands Housing Authority	3,155	–	(1,602)	1,554	–	1,554
Virgin Islands Port Authority	1,929	–	(1,929)	–	–	–
Virgin Islands Housing Finance Authority	1,415	–	(77)	1,338	78	1,260
University of the Virgin Islands	48,917	4,580	(1,600)	51,897	1,891	50,006
Total loans payable	66,860	4,580	(7,912)	63,529	4,665	58,864
Line of credit payable:						
Virgin Islands Water and Power Authority:						
Electric System	16,875	–	–	16,875	–	16,875
Water System	2,500	–	–	2,500	–	2,500
Total line of credit payable	$ 19,375	$ –	$ –	$ 19,375	$ –	$ 19,375
Other long-term liabilities:						
University of the Virgin Islands	$ 3,768	$ 1,503	$ –	$ 5,271	$ –	$ 5,271
Virgin Islands Housing Authority	28,004	–	(16,635)	11,369	566	10,803
Virgin Islands Water and Power Authority:						
Electric System	31,121	4,269	–	35,390	–	35,390
Water System	6,228	873	–	7,101	–	7,101
Economic Development Authority	1,248	–	(1,134)	114	–	114
Juan F. Luis Hospital	51	400	(206)	245	205	40
Virgin Islands Housing Finance Authority	10,639	–	(905)	9,734	–	9,734
Total other long-term liabilities	$ 81,059	$ 7,045	$ (18,880)	$ 69,224	$ 771	$ 68,453

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

In May 2012, the Electric System of WAPA issued the: (i) 2013A Electric System Revenues Refunding Bonds amounting to $17.3 million; (ii) the 2013B Electric System Subordinated Revenue Bonds amounting to $19.7 million; and (iii) the 2013C Electric System Subordinated Revenue Bonds amounting to $32.1 million. The proceeds of the Series 2013A Bonds were used to refund the Electric System Revenue Refunding Bonds, Series 1998 and pay certain costs of issuances of the Series 2013A Bonds. The proceeds of the Series 2013B Bonds were used to refinance a portion of the Electric System Term Loan, make a deposit into the Subordinated Debt Service Reserve Fund sufficient to satisfy the Series 2013B Subordinated Debt Service Fund Requirement and pay certain costs of issuance of the Series 2013B Bonds. The proceeds of the Series 2013C Bonds were used to refinance all or a portion of the Electric System Working Capital Lines of Credit and Overdraft Credit Facility, make a deposit into the Series 2013C Subordinated Debt Service Reserve Fund sufficient to satisfy the Subordinated Debt Service Reserve Fund Requirement and pay certain costs of issuance of the Series 2013C Bonds.

In June 2011, the University of the Virgin Islands entered into two capital project loan agreements (loan agreements) in the amounts of $44 million and $16 million, with Rice Capital Access Program, LLC. The purpose of the capital project loans was to: (i) advance refund the University's 1999 Series A Bonds and 2004 Series A Bonds, and (ii) to pay for construction costs of a 100 bed student residence facility and other construction improvement costs of facilities on the St. Thomas and St. Croix campuses. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old outstanding bonds of approximately $4.5 million and an economic gain of $6.8 million.

In March 2010, the Electric System issued the $39 million 2010A Electric System Revenue Refunding Bonds; the $9 million 2010B Electric System Revenue Bonds; and the $37 million 2010C Electric System Revenue Refunding Bonds. The proceeds of the Series 2010A Bonds were used to: i) refund a portion of the Electric System Revenue Refunding Bonds, Series 1998, and ii) pay certain costs of issuance of the Series 2010A Bonds. The proceeds of the Series 2010B and 2010C Bonds were used to: i) finance certain capital expenditures temporarily funded through draws on a line of credit ($9 million) and, ii) to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the three series were also used to pay certain costs of issuance of the 2010A, 2010B, and 2010C Revenue and Refunding Bonds.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

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

In June 2003, the Electric System issued the Electric System Revenue Bonds, Series 2003, amounting to $69.9 million. The proceeds from the bonds were used to finance capital improvements, repay $18.0 million of then outstanding lines-of-credit, cover underwriters' costs, and establish a debt service fund. The Series 2003 Bonds maturing on or after July 1, 2023 are subject to redemption prior to their stated maturity date, at the option of the Electric System, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

In June 1998, the Electric System issued $110.9 million of 1998 Series A Electric System Revenue and Refunding Bonds. The proceeds from the bonds, and approximately $14 million in funds from the existing debt service and debt service funds, were used to repay outstanding line-of-credit balances, to provide for approximately $30.0 million in funds for the construction of certain capital projects, and to pay underwriters discount and issuance costs of approximately $1.7 million. The remaining proceeds were used to purchase direct obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining $69.0 million principal amount of the 1991 Series A Electric System Revenue Bonds.

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

Under the General Resolution, the Authority is required to maintain a Debt Service coverage ratio at least equal to 1.25 times (125%) the principal of and interest on all Outstanding Senior Bonds for the current and each future fiscal year (the Senior Coverage).

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Under the Electric System Subordinated Revenue Bond Resolution, adopted by the Authority on May 17, 2007, as amended and supplemented (the Subordinated Bond Resolution), the Authority must satisfy the Debt Service coverage ratio of the General Resolution for the Senior Bonds, must maintain a Subordinated Debt Service coverage ratio at least equal to 1.15 times (115%) the principal of and interest on all Outstanding Bonds (the Senior and Subordinate Coverage) and all Outstanding Subordinated Bonds for the current and each future fiscal year, and must maintain at least 1.0 times (100%) the Maximum Aggregate Debt Service for each such fiscal year (total debt coverage).

For the year ended June 30, 2013, the Authority's debt coverage ratio was 216% for senior coverage, 137% for senior and subordinate coverage and 116% for total debt coverage. Section 606(2) of the Subordinated Bond Resolutions provides that if the Authority fails to achieve the required coverage ratios, then the Authority must "take whatever steps it can to produce the amount of net electric revenues required in the following year". Section 701(3) of the Subordinated Bond Resolutions further provides that if the covenant default continues for 60 days after notice of default without the Authority proceeding with diligence to cure the default. The Authority believes it is taking such steps currently to ensure future compliance with required debt coverage ratios.

The Electric System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Electric System was damaged, destroyed, taken, or condemned, or (ii) any for-profit nongovernmental investor shall acquire an ownership interest in some or all of the assets of the Electric System.

In December 1998, the Water System of WAPA issued the 1998 Water System Revenue and Refunding Bonds amounting to $44.2 million. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States Government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

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

The Bond Resolution contains certain restrictions and commitments, including the Water System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net water revenue, as defined, that will be at least 125% of aggregate annual principal and interest payments. The Water System's net water revenue for the fiscal years ended June 30, 2013 and 2012 was 174% and 42% of the aggregate debt service as defined in the Bond Resolution. Section 606(2) of the Bond Resolution provides that if the Authority fails to achieve the 125% coverage, the Authority must "take whatever steps it can to produce the amount of net water revenue required in the following fiscal year". Section 701(3) of the Bond Resolution defines this as a condition of default unless the Authority is proceeding with diligence to cure such default. The management of the Water System advises it is taking necessary steps to ensure future compliance with debt coverage ratios.

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

In January 2003, VIPA issued the Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable) with principal amounts of approximately $18 million and $17.4 million, respectively. VIPA is using the proceeds of the bonds to finance the dredging, rehabilitation, and construction of berthing piers for cruise and seagoing vessels at Crown Bay in St. Thomas, and the construction of a mixed used commercial facility.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

In October 2003, VIPA issued the Marine Revenue Bonds Series 2003C (non-AMT), with an authorized principal amount not to exceed approximately $10.8 million. VIPA used the proceeds of the bonds to finance the completion of several projects of rehabilitation and construction of berthing piers and dredging for cruise and seagoing vessels at Crown Bay on the island of St. Thomas, and the construction at Red Hook, Enighed Pond, Gallows Bay Dock, and dredging of the Charlotte Amalie Harbor.

The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance, and other costs as specified in the corresponding bond indentures. The bonds' indentures also specify certain debt service coverage requirements determined from net available revenue (as defined) of the Authority's Marine Division. The provisions of each of the bonds' indentures require that rates and fees charged for the use of each facility should be sufficient to generate enough revenue to pay all operation and maintenance expenses, exclusive of depreciation and certain noncash charges, of the respective facilities, plus: (i) at least 125% of the principal and interest and redemption account sinking fund deposit requirement of each of the bonds becoming due during such year; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the capital improvements appropriations for such period.

For the year ending September 30, 2013, VIPA did not comply with the requirement to issue the audited financial statements within 150 days after year-end. However, as per the Authority's bond indenture, this noncompliance event does not constitute an event of default until the Trustee sends a notification of failure and such failure continues for 90 days. VIPA did receive notification from its Trustee, but noncompliance was covered within the 90 days.

In August 1998, VIHFA issued the 1998 Revenue Bonds Series A in the amount of $3.0 million, and on March 1, 1995, VIHFA issued the 1995 Revenue Bonds Series A in the amount of $6.2 million, for the purpose of building single-family housing. The indenture agreements for the bonds require the VIHFA to deposit with the trustee the full amount of the bond proceeds, to purchase Government National Mortgage Association (GNMA) certificates. The servicer is obligated to pay the principal and interest due on the GNMA certificates to the trustee in an amount equal to the scheduled principal and interest payments of the underlying mortgages. All mortgage loans issued by the VIHFA must be originated by the participants and secured by a first priority mortgage lien on the applicable single-family residences.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Fixed maturities required to pay principal and interest on discretely-presented component units' bonds payable with fixed maturities at September 30, 2013 are as follows (expressed in thousands):

Year	Principal	Interest	Total
2014	$ 15,345	$ 14,641	$ 29,986
2015	16,040	13,952	29,992
2016	16,785	13,206	29,991
2017	17,605	12,377	29,982
2018	15,745	11,516	27,261
2019 - 2023	86,265	62,244	148,509
2024 - 2028	74,645	28,288	102,933
2029 - 2033	53,590	9,106	62,696
2034 - 2036	7,680	795	8,475
Total	303,700	$ 166,125	$ 469,825
Plus unamortized premium	3,824		
Less unamortized discount	(88)		
Bonds payable, net	$ 307,436		

12. General Tax Revenue

For the year ended September 30, 2013, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 316,026	$ –	$ –	$ –	$ 316,026
Real property taxes	94,086	–	–	9,885	103,971
Gross receipts taxes	1,475	152,312	1,946	250	155,983
Excise taxes rum products	176,900	96,907	–	4,885	278,692
Other taxes	52,513	–	–	7,593	60,106
Tax revenue	$ 641,000	$ 249,219	$ 1,946	$ 22,613	914,778
Tax revenue recognized on the full accrual basis					(19,774)
Total tax revenue - government-wide					$ 895,004

13. Governmental Fund Balances

For the year ended September 30, 2012, the PG implemented Statement No. 54 of the Governmental Accounting Standards Board, *"Fund Balance Reporting and Governmental Fund Type Definitions."* This Statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The classifications reported by the PG include: nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

The PG utilizes the classification of: (i) nonspendable fund balance to report prepaid expenses, (ii) restricted fund balance to report debt service accounts, (iii) committed fund balance to report fund balances restricted by grantors, external parties, regulations and litigation, (iv) assigned fund balances to report those funds assigned by the legislature, boards and authorities of the PG, and (v) unassigned fund balances of the General Fund.

The PG's policy is to expend unassigned fund balances before assigned, committed or restricted balances.

13. Governmental Fund Balances (continued)

Following is a detail of the aggregated fund balances presented in the Balance Sheet – Governmental Funds as of September 30, 2013:

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Fund balances:					
Restricted for:					
Debt Service	$ –	$ 276,429	$ –	$ –	$ 276,429
Capital Projects	–	–	106,767	–	106,767
General Government	–	–	–	–	–
Public Safety	–	–	–	–	–
Health	–	–	–	–	–
Public Housing and Welfare	–	–	–	–	–
Education	–	–	–	–	–
Transportation and Communication	–	–	–	–	–
Culture and Recreation	–	–	–	–	–
Total Restricted	–	276,429	106,767	–	383,196
Committed to:					
General Government	26,749	–	–	17,760	44,509
Public Housing and Welfare	–	–	–	82	82
Transportation and Communication	–	–	–	9,034	9,034
Culture and Recreation	565	–	–	341	906
Total Committed:	27,314	–	–	27,217	54,531
Assigned to:					
General Government	–	–	–	28,909	28,909
Public Safety	–	–	–	(4,351)	(4,351)
Health	–	–	–	3,977	3,977
Public Housing and Welfare	–	–	–	28,457	28,457
Education	–	–	–	(18,252)	(18,252)
Transportation and Communication	–	–	–	8,767	8,767
Culture and Recreation	–	–	–	319	319
Total Assigned	–	–	–	47,826	47,826
Unassigned	(37,260)	–	–	–	(37,260)
Total Fund Balances	$ (9,946)	$ 276,429	$ 106,767	$ 75,043	$ 448,293

13. Governmental Fund Balances (continued)

The assigned fund balance includes approximately $44.7 million in unexpended encumbrances. Encumbrances are utilized to determine commitments related to unperformed (executor) contracts for goods and services, and to prevent the over-spending of an appropriation.

14. Commitments and Contingencies

Primary Government

Collective Bargaining Agreements

The current labor relations environment of the Government is defined by 13 distinct labor organizations subject to approximately 26 collective bargaining agreements. Fourteen bargaining units are without collective bargaining agreements. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and nonprofessional workers in different departments throughout the Government, represented by different unions. Of the approximately 9,600 government workers, including employees of the executive branch of the Government, approximately 7,200 belong to unions. The present collective bargaining statute requires binding arbitration for certain classified employees in the event of an impasse during salary negotiations between the Government and any union. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision. For other classified employees, the Government must decide to go to impasse or to enjoin any strike.

As of September 30, 2013, the Government has contractual liabilities for retroactive union arbitration salary increases estimated at $195.3 million accruing from fiscal years 1993 through 2013, as established by the Virgin Islands Retroactive Wage Commission.

Under Title 24, Section 374(h) of the Virgin Islands Code, the PG may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Federal Assistance Programs

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Loans received are described in Note 11. Monetary and nonmonetary federal financial assistance to governmental funds amounted to approximately $214.6 million and $26.7 million for operation and capital contributions, respectively, for the year ended September 30, 2013.

In February 2009, the federal government passed the American Recovery and Reinvestment Act ("ARRA") to create jobs and stimulate the economy. Under Title I, Section 1001(b) of ARRA, the federal government acknowledged that certain refundable tax credits authorized by the Act imposed an economic hardship on United States territories that operate under "mirror" income tax systems. To alleviate this economic hardship, Congress provided for federal loss reimbursements to the mirrored system territories. During fiscal years 2009, 2010, and 2011, the PG received $23.4 million, $21.1 million and $7.7 million in loss reimbursements for the Making Work Pay refundable tax credit. During fiscal year 2011 and 2012, the PG received $18.6 and $5.1 million in loss reimbursements of the Additional Child Tax refundable tax credit.

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

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

14. Commitments and Contingencies (continued)

Primary Government (continued)

Compliance Agreement U.S. Department of Education

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

On August 22, 2006, the PG entered into a contract with a third-party fiduciary to administer U.S. Department of Education grants, effective October 1, 2006. The terms and conditions of the original compliance agreement have been extended until the Government is in full compliance with the agreement.

Legal Proceedings and Litigation Claims

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government in excess of $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to $250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately $13.0 million for awarded and anticipated unfavorable judgments as of September 30, 2013. Management believes that any liability in excess of amounts recorded will not have a material effect on the basic financial statements.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Legal Proceedings and Litigation Claims (continued)

Changes in the reported provision for legal claims since October 1, 2011, resulted from the following activity (expressed in thousands):

	Beginning Balance at October 1, 2011	New Claims	Claim Payments and Changes in Estimates	Ending Balance at September 30, 2012
Provision for legal claims	$ 27,263	$ 1,252	$ (15,607)	$ 12,908

	Beginning Balance at October 1, 2012	New Claims	Claim Payments and Changes in Estimates	Ending Balance at September 30, 2013
Provision for legal claims	**$ 12,908**	**$ 7,956**	**$ (7,810)**	**$ 13,054**

The breakdown of the provision for legal claims at September 30, 2013 is as follows (expressed in thousands):

Governmental activities	
Current portion of provision for legal claims	$ 137
Long-term portion of provision for legal claims	12,917
	$ 13,054

14. Commitments and Contingencies (continued)

Primary Government (continued)

Property Tax Assessments

As of September 2002, the Government was a defendant in a lawsuit regarding the assessment of property taxes. Under the lawsuit, taxpayers asserted that properties should be assessed at actual value in accordance with the Organic Act of 1933. The U.S. District Court agreed with the plaintiffs and, in May 2003, imposed an injunction on the collection of real property taxes at values higher than the 1998 assessed value. The Government complied with the Court order to develop a plan to implement the new valuation method. In February 2007, the 2005 property tax assessments, based on 1998 assessment levels, were issued. In August 2008, the 2006 property tax assessments, based at actual value in accordance with the Organic Act of 1933, were issued. In September 2008, the 2006 property tax bills were rescinded by court order. In May 2009, the Government received court approval to reissue the 2006 property tax assessments; however, that approval was rescinded in June 2009. The Government subsequently issued the 2006, 2007 and 2008, 2009 property tax assessments, based on 1998 assessment levels. The 2010, 2011 and 2012 property tax assessments were issued in June 2012, February 2013 and July 2013 at the 2008 assessment levels.

Landfill Closure and Post-Closure Costs

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

14. Commitments and Contingencies (continued)

Primary Government (continued)

Landfill Closure and Post-Closure Costs (continued)

Although closure and post-closure costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $95.8 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2013, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care as of September 30, 2013.

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

Landfill	Estimated used capacity	Estimated closure date
Bovoni	66%	2020
Angilla	100%	Closed
Susannaberg	100%	Closed

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

14. Commitments and Contingencies (continued)

Primary Government (continued)

Wastewater Treatment Plant Consent Decree

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation requires that the new St. Croix wastewater treatment plants be completed by the end of 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. The cost of both facilities is estimated at approximately $50 million. The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the stipulation. In January 2004, the Government's Legislature authorized the creation of the Virgin Islands Waste Management Authority (WMA) for the purpose of meeting environmental requirements of waste treatment in the U.S. Virgin Islands. On December 2004, the PFA issued revenue bonds amounting to $94 million for the purpose of constructing and rehabilitating wastewater treatment plants noted above.

Memorandum of Understanding - EPA

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System permit for its St. Croix distillery operations provided that the Government make certain funding available to (1) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge, (2) identify practicable, available, reliable, and cost-effective potential mitigation measures, and (3) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the V.I. Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Memorandum of Understanding – EPA (continued)

Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to $6 million in the aggregate, commencing on October 13, 2003. In June 2004, the Government entered into a three year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA.

Workers' Compensation Liability

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

Changes in the claims liability amount in fiscal year 2013, as recorded in the Government Insurance Fund was as follows (expressed in thousands):

	2012	2013
Claims payable - October 1	$ 20,342	**$ 26,661**
Incurred claims and changes in estimates	10,878	**9,903**
Payments for claims and adjustments expenses	(4,559)	**(12,773)**
Claims payable - September 30	$ 26,661	**$ 23,791**

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

14. Commitments and Contingencies (continued)

Primary Government (continued)

Bond Credit Ratings

On February 12, 2013, Moody's Investors Service withdrew the ratings on the U.S. Virgin Islands general obligation gross receipts tax debt, issued through PFA, due to the lack of sufficient financial and operating information, and the late issuance of the 2010 audited financial statements. On October 15, 2013, Fitch Ratings affirmed a BBB rating for general obligation gross receipts tax debt of the PFA.

On August 4, 2013, Moody's assigned a Baa2 rating to the issuance of the Series 2013A matching fund bonds. On August 29, 2013 Fitch downgraded the U.S. Virgin Islands matching fund bonds from a BBB rating to a BBB- rating due to revised projections based on alcohol content of Captain Morgan products.

Pension Reform Joint Task Force

In response to a recommendation in a September 27, 2011 audit report from the Office of the Inspector General, U.S. Department of Interior, the PG formed the Pension Reform Joint Task Force (the "Task Force") to address the declining fiscal condition of the Government Employees Retirement System. The Office of the Inspector General's audit report had concluded that, due to insufficient contribution levels, and an unbalanced ratio of active to retired members, the retirement system of the U.S. Virgin Islands may default within 14 to 19 years. The Task Force recommendations, presented to the Legislature in May 2013, included: (i) have the government and its employees contribute a larger amount towards pension benefits, (ii) raising contribution rates for senators and judges, (iii) reducing retiree's current benefits by 10 percent, (iv) increasing the early retirement age from 50 to 55 and the regular retirement age from 60 to 65, (vi) limiting the cost of living increase, and (vii) changing the formula used to calculate benefits. The Task Force continues to work with the Legislature, and hearings were held at the Legislature in May 2014.

14. Commitments and Contingencies (continued)

Component Units

In September 1989, WAPA Electric facilities were damaged by Hurricane Hugo. WAPA reconstructed the facilities with proceeds from insurance and FEMA. Subsequent to the receipt of funds, FEMA de-obligated approximately $7.9 million in questioned costs. Approximately $2.6 million of these questioned costs related to an oil spill that was subsequently settled with FEMA. During 1998, WAPA submitted a second appeal for $4.4 million of the remaining questioned costs, and agreed to refund approximately $900 thousand of questioned costs to FEMA. During 1999, FEMA denied the second appeal and formally closed the disaster claim. WAPA has recorded a liability for $4.6 million related to the questioned costs. FEMA has not made a formal request for repayment of the funds.

In October 2008, WAPA Electric facilities on the island of St. Croix were damaged by Hurricane Omar. WAPA expended $2.7 million for storm cleanup and system restoration through June 2010. The territory was declared a federal disaster after the hurricane and is eligible for reimbursement of 75% of what was expended according to the category of the damage. WAPA Electric has recorded a receivable from FEMA through the Office of Management and Budget – Public Assistance (OMB-PA) amounting to approximately $2.1 million.

In August 2010, WAPA Electric facilities were damaged by Hurricane Earl. WAPA has expended over $2 million for storm clean-up and restoration, which was completed in October 2010. The territory was declared a Federal disaster area after the Hurricane and is eligible for reimbursement of 75% - 80% of what was expended according to the category damage. WAPA recorded a receivable of $1.1 million from FEMA through the Virgin Islands Territorial Emergency Management Agency (VITEMA) Public Assistance Program as of June 30, 2013.

On September 30, 2011, WAPA Electric entered into a Memorandum of Agreement (MOA) with viNGN, Inc., a Virgin Islands corporation and wholly owned subsidiary of the PFA. The MOA terms call for WAPA Electric to provide in-kind contributions in connection with a federal grant received by viNGN, Inc. The in-kind contributions consist of the use of certain facilities, equipment and communications infrastructure. The total in-kind match value budgeted by WAPA was $15.2 million. The term of the MOA is twenty-five (25) years upon execution, with two additional twenty-five (25) year terms unless either party provides a written notice of non-renewal not less than twelve (12) months, but no sooner than twenty-four (24) months prior to the expiration of the original term or any additional term.

14. Commitments and Contingencies (continued)

Component Units (continued)

In 2011, the Water System of WAPA entered into two agreements with a private company to build, operate and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to WAPA. The agreements both have 20 year terms expiring through 2032.

In 2002, the Federal Aviation Administration (FAA) conducted an on-site wildlife evaluation of the Anguilla Landfill, which is located next to the St. Croix airport. The FAA determined that the landfill posed an environmental and navigational threat to the airport due to flocks of birds that reside in the landfill area. The FAA stated it may require the VIPA to repay $9.3 million in federal grants and has refused further discretionary grants for the airport until VIPA shows progress toward closing the landfill. The matter was mitigated in fiscal year 2013, and VIPA is now eligible for grants.

In 2009, the Anguilla Landfill was transferred to the jurisdiction of the WMA. WMA subsequently entered into a consent decree with EPA, extending the closure date of the landfill to the year 2020, while diverting incoming solid waste to a newly constructed transfer station. Under the consent decree, WMA must pay penalties of $50 thousand in installment of $12.5 thousand for the years ending September 30, 2012 through 2016.

The Governor Juan F. Luis Hospital and Medical Center owns a 40% interest in a radiology practice that operates within the hospital. The radiology practice pays rent to the hospital and the hospital pays for services to hospital patients. As of September 30, 2013 and 2012, the hospital owed the radiology practice $7.8 and $6.6 million. As a result of the unpaid service fees, the hospital incurred an impairment loss of $375 thousand for the year ending September 30, 2013 and $2.4 million for the year ending September 30, 2012, in its investment in the radiology practice.

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

15. Retirement Systems

Plan Description

GERS is the administrator of a cost-sharing, multiple-employer, defined-benefit pension plan established as of October 1, 1959 by the Government to provide retirement, death, and disability benefits to its employees. The following description of the plan is provided for general information purposes only. Refer to the actual text of the retirement law in the V.I. Code, Title 3, Chapter 27 for more complete information. Regular employees are eligible for a full-service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Members who are considered "safety employees," as defined in the V.I. Code, are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and upon the completion of 6 years of credited service as a member of the Legislature.

Membership of the System consisted of the following at September 30, 2013 and 2012:

	2013	2012
Retirees and beneficiaries currently receiving benefits and terminated employees entitle to benefits but not yet receiving them	**$ 8,653**	$ 8,151
Current employees	**9,241**	9,935
	$ 17,894	$ 18,086

Funding Policy

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation is determined by averaging the five highest years of salary the member earned within the last ten years of service, subject to the maximum salary limitation in effect during such service. The maximum annual salary that can be used in this computation is $65,000, except for senators and judges, whose annual salary is used. The board of trustees of GERS may set cost-of-living increases for annuitants and pensioners and determine when the annuity should be paid on the basis of the most recent actuarial valuation and the Consumer Price Index.

15. Retirement Systems (continued)

Funding Policy (continued)

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

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

The contributions required to fund GERS on an "actuarial reserve basis" are calculated periodically by the GERS actuarial consultant. The actuarial valuation as of September 30, 2011 indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the pension trust fund on an actuarial basis, as required by law.

The Government's required contribution for the year ended September 30, 2013 was 17.5% of the member's annual salary. Since April 1, 1991, required member contributions are 8% of annual salary for regular employees, 9% for senators, 11% for judges, and 10% for safety (hazardous employees) and eligible employees under Act 5226. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, GERS Board of Trustees approved an effective annual interest rate on refunded contributions of 2% per annum. The Government's estimated annual required contributions (based on a fiscal year 2006 actuarial valuation), actual contributions made, and percentage contributed to the plan for the years ended September 30, 2013, 2012, and 2011 were as follows (expressed in thousands):

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2011	$ 80,850	$ 80,850	100%
2012	$ 66,677	$ 66,677	100%
2013	$ 64,531	$ 64,531	100%

15. Retirement Systems (continued)

Funding Policy (continued)

In August 1994, legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994, and December 5, 1995. Among other matters, the legislation allows a member of GERS who has a combined aggregate number of years of credited service plus number of years of age, equal to at least 75 years as of the date of the legislation, to retire without reduction of annuity. Members, who have attained the age of 50 with at least 10 but less than 30 years of credited service, may add an additional 3 years to their age for this computation. Members with 30 years of service or who can retire without penalty under the V.I. Code shall have their average compensation increased by 4 percentage points.

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

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the three years used to compute the employee's average compensation figure, plus a sum of $5,000. Based on this calculation, the amount due to GERS was $26.9 million as of September 30, 2013, of which $26.9 million had been remitted to GERS.

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

15. Retirement Systems (continued)

Funding Policy (continued)

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. Total contributions made by the University to TIAA-CREF and GERS participant accounts amounted to $2.1 million and $1.3 million, respectively.

Postemployment Benefits

In addition to the pension benefits described in Note 15, the Government provides other postemployment benefits (OPEB) of healthcare, prescription, dental and life insurance coverage. These benefits are provided in accordance with Title 3, Chapter 25, Subchapter VIII of the VI Code as part of a cost-sharing, multiple employer defined benefit OPEB plan, in which all component units of the PG participate and contribute. All employees who retire from government service after attaining age 55 with at least 30 years of service; except for policemen and firemen who can retire with at least 20 years of service, are eligible for these benefits.

Based on census data included in the October 1, 2011 actuarial valuation of OPEB, approximately 9,655 active employees, 6,837 service retirees, 1,845 spouses of service retirees covered for medical and dental benefits, 118 disability retirees, 52 spouses of disability retirees, and 175 deferred vested (i.e., non-retired employees who have already terminated employment with the PG, but who are eligible for medical and life insurance benefits when they subsequently reach the qualifying age) meet the eligibility requirements of OPEB.

15. Retirement Systems (continued)

Postemployment Benefits (continued)

Healthcare, prescription and dental insurance is provided through negotiated contracts with private insurance companies. Participants in the plan may elect coverage for their spouses and dependent children. Participants are required to contribute 35% of medical, prescription and dental premiums. Effective October 1, 2013, separate medical premiums for non-Medicare retirees and Medicare retirees are being used to determine contribution requirements, instead of a premium blended with active costs. Retirees of UVI that participate in the 403(b) retirement plan may obtain coverage on a fully contributory basis. Life insurance is offered to retirees on a fully contributory basis.

The contribution requirements of plan members and the PG are legislated within the Virgin Islands Code, and may be amended, by the Virgin Islands Legislature. The plan is a non-funded pay-as-you-go plan, and expenditures are paid as they become due. For the years ended September 30, 2013 and 2012, the Legislature budgeted, and paid, $23.9 and 22.3 million for retiree health insurance payments.

The PG's postemployment benefit cost is calculated on the annual required contribution of the PG, an amount actuarially determined. The first actuarial valuation was prepared as of October 1, 2007, in accordance with provisions of GASB Statement 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions"*, and has been updated by the actuarial consultant on October 1, 2009, October 1, 2011, and October 1, 2012. On October 1, 2013, the plan covering post-65 retirees and dependents was changed to AARP Medicare Supplement Plan N and an Employer Group Waiver Plan. Due to the significant cost reductions, a new valuation was prepared for October 1, 2012, projecting the liabilities and normal cost to determine the PG's annual required contribution for the fiscal year ending September 30, 2013. The valuation results were based on census data provided by the Government as of October 1, 2011. Prior to the implementation of GASB Statement 45, the PG did not report an OPEB obligation.

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

15. Retirement Systems (continued)

Postemployment Benefits (continued)

The following table shows the components of the PG's annual postemployment benefits cost for the fiscal year ended September 30, 2013, and the changes in the net estimated obligation for future payments of benefits:

Annual OPEB Cost and Net Postemployment Benefit Obligation

In thousands		
Annual required contribution	$	71,385
Interest on underfunded OPEB obligation		9,190
Adjustment to underfunded OPEB obligation		(9,397)
Annual OPEB cost		71,178
Employer contributions		(31,283)
Change in the net OPEB obligation	$	39,895
Net OPEB obligation - beginning of year	$	245,079
Change in the net OPEB obligation		39,895
Net OPEB obligation - end of year	$	284,974

Actuarial Accrued Liability and Funding Status

In thousands	
Actuarial Valuation Date	October 1, 2012
Actuarial Accrued Liability (AAL)	$994,464
Unfunded AAL	$994,464
Funded Ratio	0%

15. Retirement Systems (continued)

Postemployment Benefits (continued)

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the PG and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the first actuarial valuation dated October 1, 2007, liabilities at October 1, 2008 were rolled back to October 1, 2007. In subsequent valuation reports, actual benefit payments were used for the fiscal years ending September 30, 2009 through 2013.

Covered health care and dental care expenses were assumed to increase in future years based on the claims experience for fiscal years 2012 and 2013, and a trend assumption beginning at 8.5% for pre-Medicare retirees, 7.0% for post-Medicare retirees, and 7.5% for dental for fiscal year 2013 grading down to an ultimate rate of 4.5% in fiscal year 2022.

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

This method is consistent with the cost method used by GERS and typically produces the most level annual required contribution each subsequent year as a percentage of payroll. The normal cost was rolled back using the ultimate trend rate. A discount rate of 3.75% per annum was used, compounded annually. The valuation assumed that the annual unit cost per covered individual (i.e., retiree or spouse) for medical, prescription drugs and dental care for the fiscal year ending September 30, 2013 was $7,395, $1,257 and $199 for retirees under age 65; and $972, $1,578 and $199 for retirees over age 65. The normal cost reflects the average age of the covered population and is based on claims experience for fiscal year ending September 30, 2013.

15. Retirement Systems (continued)

Postemployment Benefits (continued)

Combined experience and a combined cost were used for the pre-65 and post-65 populations. A composite cost was developed for retirees and spouses by combining their claim experience. Dependent children claims were included in developing the composite retiree and spouse cost. Costs were trended forward to fiscal year 2013 and adjusted to reflect the anticipated lag in claim payment.

16. Liquidity

Governmental Activities

At September 30, 2013, the Government reported an unrestricted net deficit in governmental activities amounting to $1.8 billion. The net deficit resulted from: 1) the 2008 financial markets collapse and subsequent recession resulting in a reduction in income tax revenue and increase in unemployment, 2) the delay in the issuance of property taxes due to a class action lawsuit, 3) increases in costs of operations, and 4) the negative effect of certain Internal Revenue Service regulations resulting in a reduction of economic development companies operating in the Territory. Following is a summary of the Government's unrestricted net deficit for governmental activities for fiscal years 2007 through 2013:

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

Fiscal Year	Governmental Unrestricted Net Deficit	(Increase)
2007	$ (335,924)	$ (29,457)
2008	(513,201)	(177,277)
2009	(1,110,871)	(597,670)
2010	(1,408,601)	(297,730)
2011	(1,630,549)	(221,948)
2012	(1,697,066)	(66,517)
2013	(1,837,805)	(140,739)

16. Liquidity (continued)

Governmental Activities (continued)

The Government has initiated specific actions to improve its liquidity and future cash flows. The Government established the Office of Economic Opportunity to pursue grants through the American Recovery and Reinvestment Act of 2009, to generate jobs, to promote energy efficient appliances and automobiles, and to improve infrastructure. The Government has successfully attracted a rum producer (Captain Morgan) and retained an existing rum producer (Cruzan Rum) within the Territory. The Government has imposed budgetary restraints, including incentives for early retirement of government workers, salary reductions, personnel reductions and budgetary cut-backs for the entire government. The Government has also legislated increases in local taxes such as the gross receipts taxes and hotel taxes. The Government has met certain District Court requirements in connection with a taxpayer class-action lawsuit, allowing the issuance of property tax assessments through 2012.

General Fund

At September 30, 2013, the Government reported a fund deficit in the General Fund of $9.9 million. This fund balance represents a decrease in the General Fund balance of $30.3 million from the 2012 fiscal year, mainly due to the issuance of working capital loans to offset deficits resulting from expenditures exceeding revenues. Following is a summary of the General Fund balance for fiscal years 2013, 2012 and 2011:

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

Fiscal Year	Committed	Unassigned	Total
2011	$29,571	$(103,408)	$(73,837)
2012	29,099	(8,649)	20,450
2013	27,314	(37,260)	(9,946)

17. Fund and Net Position Deficits

The following non-major funds have a fund or net position deficits as of September 30, 2013 (in thousands):

Governmental Funds		
RURAL LIBRARY EXTENSION	$	572
EMPLOYMENT SECURITY ADMINISTRATION		2442
FEDERALLY AIDED EDUCATION PROGRAM		9,593
AIR & WATER POLLUTION CONTROL		7,157
VI PLANNING BOARD PROJECTS		2,999
HIGHWAY SAFETY		4,600
VIRGIN ISLANDS ENERGY OFFICE		3,633
VIRGIN ISLANDS NATIONAL GUARD FEDERAL AND STATE AGREEMENT		2,755
FOOD STAMP WELFARE		2,432
FEDERAL PROGRAMS/DEPARTMENT CONSERVATION		4,229
FEDERAL AIDED COMMUNITY ACTION AGENCY		187
COMMISSION ON AGING		50
ELEMENTARY/SECONDARY EDUCATION		19
JOB TRAINING PARTNERSHIP ACT OF 1983-1984		8,614
CIVIL DEFENSE PROTECTION		849
HEALTH INFORMATION COUNCIL ASSISTANCE		18
DRUG EDUCATION TRAINING PROGRAM		123
FEDERAL HEALTH PROGRAM NOT ON FEDERAL LETTER OF CREDIT SYSTEM		489

Proprietary Funds		
BUREAU OF MOTOR VEHCILES	$	5,253
GOVERNMENT INSURANCE		23,081
HOUSING CONSTRUCTION REVOLVING		3,004
EMERGENCY HOUSING FUND		82
VIRGIN ISLANDS LOTTERY		2,200
CONSUMER PROTECTION FUND		200
VIRGIN ISLANDS HOUSING FINANCE AUTHORITY		3,000
FREDERIKSTED SMALL BUSINESS FUND		47
Proprietary Fund Net Position Deficits	$	36,867

17. Fund and Net Position Deficits (continued)

Governmental Funds		
WATER & ELECTRIC SYSTEM PROJECTS	$	1,698
SEWER SYSTEM FUND		168
DISTRICT POTABLE WATER FUND		4,962
PATERNITY AND CHILD SUPPORT		11,872
DISTRICT STREET LIGHT FUND		8,078
VI LAW ENFORCEMENT		4,534
FORENSIC SCIENCE		74
VOCATIONAL REHABILITATION		1,848
HURRICAN HUGO INSURANCE CLAIMS		3,908
VI ARMY NATIONAL GUARD		2,266
EMERGENCY DROUGHT RELIEF		173
OUTDOOR RECREATION PROGRAM		40
NARCOTICS STRIKE FORCE FORFEITURE		3
SMALL BUSINESS DEVELOPMENT ADMINISTRATION MANAGERIAL AND TECHNICAL ASSISTANCE		8
FEDERAL GRANTS FOR ALL AGENCIES EXCEPT DEPT OF EDUCATION		3,054
JUVENILE DETENTION CENTER FUND NON-LAPSING		14
VI EDUCATION INITIATIVE FUND NON LAPSING		9,264
SECTION 12 BOND PROCEEDS		31,072
ROAD FUND		6,330
PFA/OFFICE OF ECONOMIC OPPORTUNITY		133
MAJOR REPAIR AND IMPROVEMENT		58

Governmental Funds		
BOATING SAFETY PROGRAM	$	583
DEPT OF EDUCATION FEDERAL GRANTS EXCEPT ARRA		1,587
Total Fund Deficit	$	143,488

18. Restatement of Component Units

Beginning net position of three discretely-presented component units were restated to correct account balances reported in prior years as follows (expressed in thousands):

	Beginning Net Position		
Component Unit	As Previously Reported	Adjustments	As Restated
Virgin Islands Housing Authority	$ 63,607	$ 16,928	$ 80,535
Magens Bay Authority	15,911	10	15,921
Virgin Islands Public Television Station	7,745	204	7,949
Other component units	740,884	–	740,884
Net Assets	$ 828,147	$ 17,142	$ 845,289

Virgin Islands Housing Authority (VIHA)

During the audit of fiscal year 2012, VIHA restated the 2011 audited financial statements due to the fact that the Authority's previously issued financial statements did not included a liability for postemployment benefits other than pensions (OPEB) in accordance with GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. As a result, VIHA's net position as of September 30, 2011 was adjusted by $16.9 million.

19. Subsequent Events

Primary Government

On October 16, 2013, PFA issued the Series 2013 B-2 Revenue Anticipation Note ("Series 2013B-2 Note") amounting to $20 million through FirstBank Puerto Rico. The Government has pledged gross receipts taxes for the timely payment of the Series 2013B-2 Note. The proceeds of the Series 2013B-2 Note were used to: (i) finance certain operating expenses and other financial obligations of the Government, and (ii) pay the costs of issuing the Series 2013B-2. The Series 2013B-2 Note has a maturity date of September 30, 2014, and has a 6.0% interest rate.

On October 17, 2013, PFA issued the Series 2013 B Revenue Refunding Bonds ("Series 2013B Bonds") amounting to $51.4 million. The Government has pledged matching funds for the timely payment of the Series 2013B Bonds. The Series 2013B Bonds bear interest at rates from 3.00% to 5.00% and mature from 2015 to 2024. The Series 2013B Bonds were issued to: (i) refund portions of the Series 2004A Bonds, (ii) fund certain debt service reserves in connection with the issuance of the Series 2013B Bonds, and (iii) to pay the costs of issuing the bonds.

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 November 8, 2013, the PG ratified an agreement with HOVENSA to sell the oil refinery, which discontinued operations on the island of St Croix in January 2012. The oil refinery will be utilized as a storage facility pending the sale.

19. Subsequent Events (continued)

Primary Government (continued)

On February 21, 2014, the U.S. Department of Interior's Office of Insular Affairs approved an advance payment of matching funds to the PG of $60.8 million based on a rum excise tax rate of $13.50 per proof gallon ("matching funds"). The Office of Insular Affairs had previously released an advance to the PG on September 30, 2013 at the rate of $10.50 per proof gallon, due to the expiration of the $13.50 rate on December 31, 2013. Legislation introduced in Congress in April 2014 provides for an extension of the $13.50 per proof gallon rate.

Component Units

On July 25, 2013, WAPA Electric approved a five to seven year agreement with the Vitol Group, a global energy provider to supply propane for power generation in the Territory. The project, scheduled for completion in the fall of 2014, is designed to reduce fuel costs by an estimated 30%.

On November 12, 2013, WAPA Electric extended its lease agreement with APR Energy for a gas turbine, for an additional twelve months through November 2014 for $7.8 million.

On November 21, 2013, WAPA Electric management and the various financial institutions that had extended lines of credit to the Authority maturing in December 2013, entered into a revised agreement whereby the maturity date was extended to June 25, 2016.

On December 13, 2013, WAPA Electric was awarded a $13 million low-interest rate loan from the United States Department of Agriculture Rural Utilities Service Program. The purpose of the loan is to fund the replacement of all electric meters in the Territory with digital meters that automatically report electricity usage to the WAPA offices. The loan bears interest rates of 3% to 4% and has a fifteen (15) year term.

In March 2014, the WAPA Board authorized management to enter into a contract for the purchase of an LM 2500, 22-megawatt gas turbine for an amount not to exceed $15,000,500. The project will include procurement, engineering, installation, and commissioning to fully refurbish the gas turbine which is to be installed at the Randolph Harley Power Plant on St. Thomas.

19. Subsequent Events (continued)

Component Units (continued)

On March 13, 2014, the VIPA purchased a parcel of land from the PFA for $700 thousand, in connection with development of a cruise port area on the island of St. Thomas.

On April 2014, VIPA amended its marine thrift to institute an increase in ship dues and wharfage from $.85 to $2 and $1 to $3, respectively.

On May 30, 2014, the VIHA was transferred from federal receivership with the U.S. Department of Housing and Urban Development, to administration by a board of directors appointed by the PG, and an executive director. The receivership had been established in August 2003 to address housing inventory management, financial management and long-term sustainability.

Pension Trust Fund

On December 19, 2013, GERS received a payment of $4.3 million from Seaborne Airlines towards the outstanding principal and interest on all loans held with GERS. Seaborne continues to pay costs associated with the loan restructuring.

On June 19, 2014, GERS Board of Trustees approved a settlement agreement with the PG establishing required contributions to GERS for employees who retired between October 1, 2010 and December 31, 2012 under an early retirement program. Under the terms of the agreement, delinquent property taxes remaining in debt service reserves of the Series 2011B Note upon final payment of the note, will be applied to the payment of benefits for the early retirees.

Required Supplementary Information

Required Supplementary Information (other than MD&A)

Government of U.S. Virgin Islands

Schedules of Funding Progress

September 30, 2013

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

Actuarial valuation date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
Pension Plan						
1999	$ 1,255,210,585	$ 518,081,040	$ 1,773,291,625	70.78%	$ 307,568,648	168.44%
2000	1,330,089,822	525,608,964	1,855,698,786	71.68%	304,887,045	172.39%
2001	1,342,894,336	731,727,064	2,074,621,400	64.73%	298,909,928	244.80%
2002	1,337,676,064	815,884,419	2,153,560,483	62.11%	367,803,013	221.83%
2003	1,346,906,862	921,669,858	2,268,576,720	59.37%	338,444,739	272.33%
2004	1,360,288,336	977,502,024	2,337,790,360	58.19%	372,996,234	262.07%
2005	1,366,982,183	1,088,574,553	2,455,556,736	55.67%	355,462,276	306.24%
2006	1,421,093,035	1,236,571,529	2,657,664,564	53.47%	394,595,844	313.38%
2007	1,509,244,380	1,241,138,878	2,750,383,258	54.87%	419,161,255	296.10%
2008	1,530,604,789	1,310,218,726	2,840,823,515	53.88%	433,549,406	302.21%
2009	1,534,899,736	1,397,261,661	2,932,161,397	52.35%	458,154,309	304.98%
2010	1,505,970,212	1,513,059,673	3,019,029,885	49.88%	440,026,457	343.86%
2011(*)	1,448,926,591	1,719,110,906	3,168,037,497	45.74%	403,473,988	426.08%
2012(**)	1,327,038,907	1,603,758,454	3,168,037,497	45.28%	381,012,309	420.92%
2013(***)	1,262,600,000	1,817,900,000	3,080,500,000	41.00%	370,100,000	486.00%

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

(**) Estimated based on the financial information provided as of September 30, 2012, for the actuarial value of assets projected from the October 1, 2011 actuarial valuation, assuming that actual experience during the October 1, 2011 to September 30, 2012 matched that assumed by the actuarial assumptions. Payroll was estimated based on reported contributions for the year ending September 30, 2012. The 2012 results also reflect the suspension of the cost of living adjustment effective January 1, 2013.

(***) Based on the financial information as of September 30, 2013 and an estimated actuarial accrued liability assuming that actual experience during the October 1, 2012 to September 30, 2013 matched that assumed by the actuarial assumptions.

Actuarial valuation – October 1, 2013.
Actuarial accrued liability determined under the Entry Age Normal Method.

Actuarial Methods and Assumptions

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

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

Valuation date	October 1, 2013
Actuarial cost method	Entry age normal
Amortization method	Level dollar, closed group
Remaining amortization period	20 years
Asset valuation method	Actuarial value, but not less than 80% nor greater than 120% of market
Actuarial assumptions:	
Investment rate of return	7.5% per year compounded annually
Projected salary increases	4.0% per year compounded annually, attributable to inflation
Cost-of-living adjustments	COLA to non-disabled pensioners was suspended. Disability benefits increased by 1% up to age 60.

Postemployment Benefits Other Than Pensions

Schedule of Funding Progress

Actuarial valuation Date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
10/1/2007	$ –	$ 976,455,000	$ 976,455,000	–	N/A	N/A
10/1/2009	$ –	$1,069,562,000	$1069,562,000	–	$418,467,000	255.59%
10/1/2011	$ –	$1,133,327,000	$1,133,327,000	–	$403,389,000	280.95%
10/1/2012	$ –	$ 999,464,000	$ 999,464,000	–	$415,491,000	240.55%

Additional Note Disclosure
Annual OPEB Cost and Net OPEB Obligation

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
9/30/2008	$78,185,000	40.36%	$ 46,629,000
9/30/2009	82,004,000	42.34%	93,195,000
9/30/2010	85,946,000	42.89%	143,002,000
9/30/2011	89,962,000	35.06%	201,423,000
9/30/2012	80,322,000	45.65%	245,079,000
9/30/2013	71,176,000	43.95%	284,974,000

Required Supplementary Information (other than MD&A)

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

Schedule of Employer Contributions

September 30, 2013

	Annual required contributions	Contributions made	Percentage contributed
Year ended September 30,			
2008	$ 138,488,871	$ 75,871,146	54.79%
2009	147,490,851	80,177,004	52.35%
2010	157,817,709	77,004,630	48.79%
2011	162,841,336	80,849,762	49.65%
2012	178,644,349	66,677,154	37.32%
2013	172,439,842	64,531,322	37.42%

Report on Internal Control

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

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

We have audited, 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, the financial statements of the governmental activities, the business-type activities, the aggregate discretely-presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government) as of and for the year ended September 30, 2013, which collectively comprise the Government's basic financial statements as listed in the table of contents, and have issued our report thereon dated June 30, 2014.

We expressed a qualified opinion on the financial statements of the governmental activities and aggregate discretely-presented component units opinion units based on the circumstances noted in our report. In addition, we expressed a disclaimer of opinion on the financial statements of the aggregate remaining fund information and business type activities opinion units based on the circumstances described in our report.

Our report include references to other auditors who audited the financial statements of the Tobacco Settlement Financing Corporation (TSFC), Virgin Islands Public Finance Authority (VIPFA), Virgin Islands Water and Power Authority (WAPA), Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Lottery (V.I. Lottery), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), Employees' Retirement System of the Government of the Virgin Islands (GERS), and the Virgin Islands Housing Finance Authority (VIHFA), as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of GERS were not audited in accordance with *Government Auditing Standards*.

Building a better
working world

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Government's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, material weaknesses may exist that have not been identified. We identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct 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 did identify a deficiency in internal control, described below, that we consider to be a significant deficiency.

Financial Statements Findings

Finding Number 2013-001

Primary Agencies/Departments Affected

Department of Finance (DOF), Internal Revenue Bureau (IRB), Lieutenant Governors Office (LGO)

Topic

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

Category

Internal Control

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

Condition Found
Management's calculation of its tax revenues and accounts receivable processes were not properly performed, resulting in significant audit adjustments. The following items resulted in audit adjustments which could have been prevented if Management has implemented sound internal controls over its tax revenue and accounts receivable recognition processes: (a) Management calculation for property tax receivables was not properly calculated and thus significant audit adjustments were proposed in order to correctly present these accounts, and (b) inaccuracy of the accounts receivable aging due to subsequent collections being applied to the year-end balance.

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

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

Recommendation
The governmental finance department should be more closely involved in the monitoring and review of the tax revenue and accounts receivable processes. Management should consider performing these controls on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition. In addition, the Department of Finance should be more involved in the preparation of the accounts receivable aging in order to validate the accuracy of the information provided.

Management's Response and Planned Corrective Actions
The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Finding Number 2013-002

Primary Agencies/Departments Affected
Department of Finance (DOF), Property and Procurement (P&P), Department of Public Works (DPW), Public Finance Authority (PFA), Department of Education (DOE)

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

Category
Internal Control

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

Condition Found
During our review of capital asset accounts, we noted projects capitalized in the incorrect asset class. We also noted transfers of assets from construction in progress included as an addition instead of as a transfer from construction in progress, creating a duplicate addition. In addition, we noted assets capitalized in the incorrect period creating a cubolt issue.

Cause
There is a lack of timely coordination and communication between the Department of Finance, the Department of Property and Procurement, V.I. Public Finance Authority, and the Department of Public Works.

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

Recommendation
The Government should be more closely involved in the monitoring and review of the financial statement close process of its capital assets. On a quarterly basis, at least, Management should consider reviewing assets capitalized in order to ascertain proper project capitalization. This will enable the detection and correction of errors on a timely basis.

Management's Response and Planned Corrective Actions
The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Finding Number 2013-003

Primary Agency/Department Affected
Department of Finance (DOF)

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

Category
Internal Control

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

Condition Found
Lack of controls over the accounts payable ERP module and accounts payable reconciliations has made it difficult for the Government to establish its accounts payable subledger. Management establishes its accounts payable subledger through a manually intensive process, in addition to the lack of processes to accurately estimate accrued liabilities as part of the financial statement close process. This resulted in audit significant adjustments in the Government's financial statements.

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

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

Recommendation
The Government's management should be more closely involved in the monitoring and review of the financial statement close process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition. In addition, Management should consider establishing procedures to reduce manual efforts by utilizing its ERP Accounts Payable module more effectively. Additionally, Management should develop and establish a policy with accurate techniques to estimate accrued liabilities and not rely solely on subsequent events.

Management's Response and Planned Corrective Actions
The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Finding Number 2013-004

Primary Agencies/Departments Affected
Department of Finance (DOF)

Topic
The Government's lack of control over its retroactive pay liability has affected the auditor's ability to opine on certain affected opinion units. This has resulted in a modification of the audit opinion for the last four years. For the last four years, we encountered calculation errors that were significant in the retroactive pay liability calculation. The calculation errors have not been remediated as of the date of this report.

Category
Internal Control

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

Condition Found
The Government was not able to substantiate its calculation of the retroactive pay liability, which resulted in a qualification of the opinion of governmental activities in the Government's basic financial statements.

Cause
Supervisory review of this liability calculation process was not effective. As a result, supporting documentation for calculation was not sufficiently adequate to support Management's assertions.

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

Recommendation
The Government's management should establish controls over the review of this calculation process and effective procedures to document their support of this liability.

Management's Response and Planned Corrective Actions
The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Finding Number 2013-005

Primary Agencies/Departments Affected
Department of Finance (DOF)

Topic
Performance and review of the bank reconciliation process has not been timely performed and reconciling items have not been properly addressed or accounted for.

Category
Internal Control

Criteria
Performance and review of bank reconciliations should be performed within a reasonable period after month-end. Additionally, appropriate attention to detail should be practiced so that errors are appropriately identified and corrected on a timely basis.

Condition Found
During our audit, we noted that bank reconciliations were not being performed on a timely basis. Most bank reconciliations were completed, reviewed and approved after 365 days. As a result, reconciling items with inaccuracies that should have been identified during the review process were unheeded resulting in material misstatements.

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

Effect
The lack of timely performance and review of bank reconciliations led to adjustments not identified on a timely basis. Due to the nature of cash, lack of proper internal controls over the bank reconciliation process and cash in general can lead to an inaccurate presentation of the financial position of the Government, which can be detrimental to their operation. It can also pose a fraud risk as unapproved transactions may not be identified on a timely basis. In addition, this has prevented the Government from performing monthly closing procedures, which is necessary for timely financing reporting.

Recommendation
The Government should automate its bank reconciliation process and consolidate unnecessary bank accounts. This will allow for the Government's personnel to be more efficient and effective in detecting errors and provide the Government more timely and accurate financial information. In addition, should perform detail review of reconciling items in order to conclude on the accuracy and the proper inclusion or exclusion.

Management's Response and Planned Corrective Actions
While the Government concurs with the auditor's findings and recommendations as of September 30, 2013, significant progress regarding bank reconciliations was made subsequently. At September 30, 2013, 31 out of 32 bank accounts had been reconciled and substantial work completed in relation to the remaining bank account.

Finding Number 2013-006

Primary Agencies/Departments Affected
Department of Finance (DOF), Department of Health (DOH)

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

Category
Internal Control

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

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

Cause
The Government's financial statements have grown in complexity. An evaluation of the malpractice liability was not performed for fiscal year 2013.

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

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

Management's Response and Planned Corrective Actions
The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Finding Number 2013-007

Primary Agency/Department Affected
Department of Finance (DOF)

Topic
The Government's lack of control over transactions with its component units led to significant adjustments in the financial statements. In addition, due to consecutive restatements and qualifications with components units audited financial statements that led to qualifications and restatements on the Government's financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review. In addition, a sound system of internal controls improves their oversight on component units' financial statements and the potential effect on the Government's financial statements.

Condition Found
Lack of review of classification and reporting of transactions with component units led to errors, resulting in significant audit adjustments.

Cause
The Government does not have an effective process to review the classification and reporting of transactions between component units and the Government; in addition to process to oversight component units operation and financial statements preparation process.

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

Recommendation
The Government's management should be more closely involved in the monitoring and review of the transactions with its component units, in order to detect and correct errors on a timely basis, while enhancing the Government's understanding over its financial condition. Additionally, the Government should implement procedures to improve their oversight over component units audit procedures and financial statement close process.

Management's Response and Planned Corrective Actions
The Government concurs with the auditor's finding and recommendations. Refer to the Corrective Action for further details.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Government's Responses to Findings

The Government's responses to the findings identified in our audit are described above. The Government's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

June 30, 2014

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