A U D I T E D F I N A N C I A L S T A T E M E N T S

Virgin Islands Public Finance Authority
(a blended component unit of the Government of the United States Virgin Islands)
Years Ended September 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

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

Audited Financial Statements

Years Ended September 30, 2013 and 2012

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Report of Independent Auditors

The Board of Directors
The Virgin Islands Public Finance Authority

Report on the Financial Statements

We have audited the accompanying financial statements of The Virgin Islands Public Finance Authority (the Authority), a blended component unit of the Government of the United States (U.S.) Virgin Islands, as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the basic financial statements 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 an opinion on these financial statements based on our audits. We conducted our audits 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.

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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Virgin Islands Public Finance Authority at September 30, 2013 and 2012, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 18, 2014, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Company's internal control over financial reporting and compliance.

Ernst + Young LLP

August 18, 2014

Management's Discussion and Analysis

September 30, 2013 and 2012

The Management and Board of Directors of the Virgin Islands Public Finance Authority (the "Authority") are pleased to present the following discussion and analysis of the Authority's financial performance for the fiscal years ended September 30, 2013, 2012, and 2011.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position, Statements of Cash Flows, and Notes to the Financial Statements presented on pages 13 through 82 provide information about the activities of the Authority as a whole.

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

FINANCIAL HIGHLIGHTS

Following is condensed financial information of the Authority as of and for the years ended September 30, 2013, 2012, and 2011:

(In thousands)	2013	2012	2011
Condensed information from Statements of Net Position			
Assets:			
Current assets	**$ 441,046**	$ 427,600	$ 509,514
Non-current assets excluding capital assets	**2,117,567**	2,120,224	1,845,803
Capital assets (net of depreciation)	**98,644**	66,178	52,831
Total assets	**$ 2,657,257**	$ 2,614,002	$ 2,408,148
Liabilities:			
Current liabilities	**$ 107,591**	$ 109,382	$ 137,089
Long-term portion of bonds outstanding	**1,968,283**	1,798,917	1,700,294
Other liabilities	**502,728**	656,974	521,216
Total liabilities	**$ 2,578,602**	$ 2,565,273	$ 2,358,599
Net position:			
Invested in capital assets, net of debt	**$ 55,929**	$ 30,384	$ 23,625
Restricted	**26,933**	27,083	19,510
Unrestricted	**(4,207)**	(8,738)	6,414
Total net position	**$ 78,655**	$ 48,729	$ 49,549
Condensed information from Statements of Revenues, Expenses and Changes in Net Position			
Operating revenues	**$ 13,495**	$ 11,107	$ 9,655
Operating expenses	**(20,986)**	(21,474)	(17,622)
Operating loss	**(7,491)**	(10,367)	(7,967)
Non-operating income and other changes in net position	**37,418**	9,546	(424)
Change in net position	**$ 29,927**	$ (821)	$ (8,391)

Non-current assets, excluding capital assets, decreased by $2.7 million in 2013 due to capital outlays on behalf of the Government of the US Virgin Islands. Non-current assets, excluding capital assets, increased by $274 million in 2012 due to bond issuances and receipt of matching fund revenues.

The capital asset increase of $32.4 million and $13.3 million in 2013 and 2012, respectively, is mainly due to the build- out of the viNGN optical fiber network.

Long-term portion of bonds outstanding increased by $169 million in 2013 mainly due to issuance of the Series 2012 A & B, Series 2012 C, and Series 2013 A. Long-term portion of bonds outstanding increased by $99 million in 2012 mainly due to issuance of the Series 2012 A bonds in the amount of $143 million.

The net position of the Authority increased by $29.9 million during fiscal year 2013. The increase in 2013 is mainly due to an increase in bond and investment management fees, and capital assets of viNGN. The net position of the Authority decreased by $821 thousand during fiscal year 2012. The decrease in 2012 is mainly due to operating expenses in excess of revenues from bond and investment management fees and federal grants.

In 2013, operating revenues experienced an increase of $2.4 million which is mainly due to the management fees received in connection with the bonds and notes issued during the current fiscal year. In 2012, operating revenues experienced an increase of $1.5 million which is mainly due to the management fees received in connection with the bonds and notes issued during the fiscal year in the amount of $1.6 million.

Business Type Activities

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

Following is condensed financial information for WICO and King's Alley for the years ended 2013, 2012, and 2011:

(In thousands)	WICO 2013	WICO 2012	WICO 2011	King's Alley 2013	King's Alley 2012	King's Alley 2011
Operating revenues	**$ 9,112**	$ 8,574	$ 8,735	**$ 523**	$ 705	$ 647
Operating expenses	**(8,470)**	(7,545)	(8,278)	**(910)**	(929)	(927)
Operating income (loss)	**642**	1,029	457	**(387)**	(224)	(280)
Nonoperating revenues	**2,970**	73	152	**–**	1	2
Nonoperating expenses	**(2,050)**	(2,138)	(2,211)	**–**	–	–
Nonoperating income (loss)	**920**	(2,065)	(2,059)	**–**	1	2
Change in net position	**$ 1,562**	$ (1,036)	$ (1,602)	**$ (387)**	$ (223)	$ (278)

WICO's operating revenues consist of agency fees charged to cruise lines and rental income. During fiscal year 2013, the increase in operating revenues is due to increased passenger arrivals. The Company received a non-operating $2.95 million settlement with a former tenant during fiscal year 2013. During fiscal year 2012, the decrease in operating revenues is due to a decrease in passenger arrivals.

As reported in prior years, 10-year berthing agreements that the Virgin Islands Port Authority entered into with Princess and Holland America Cruise lines in 2006 and 2007 severely reduced the passenger arrival numbers at WICO facility.

King's Alley operating loss of $387 thousand in fiscal year 2013 ($224 thousand in 2012), is mainly due to depreciation of $481 thousand in 2013 ($481 thousand in 2012).

In October, 2013, WICO finalized an agreement to refinance the Banco Popular loan, stated at $21.2 million at the end of fiscal year 2013. The refinancing creates additional capital of approximately $6.7 million to complete Phase 1 projects. The Phase 1 projects include extension of the company's dock, as well as other key capital improvements totaling approximately $15 million.

Grant Administration

The Office of Economic Opportunity is a business unit of the Authority that was formed on June 12, 2009 to provide oversight of all the funds awarded to the Territory under the American Recovery and Reinvestment Act of 2009 which is also known as "ARRA", "the Stimulus Program", and "the Recovery Program".

Following is condensed financial information for OEO for the years ended 2013, 2012, and 2011:

	Office of Economic Opportunity		
(In thousands)	**2013**	**2012**	**2011**
Operating revenues	**$ 2**	$ –	$ –
Operating expenses	**(595)**	(961)	(4)
Operating loss	**(593)**	(961)	(4)
Nonoperating revenues – Budgetary allocation	**1,386**	892	–
Nonoperating revenues – Federal Grant Revenue	**–**	202	734
Nonoperating revenues – Interest	**2**	3	–
Income (loss) before payments on behalf of the Government of the U.S. Virgin Islands and federal grants	**795**	136	730
Payments on behalf of Government of the U.S. Virgin Islands	**–**	–	(16)
Federal grant expenditures	**–**	–	(887)
Change in net position	**$ 795**	$ 136	$ (173)

OEO's grant awards amounted to $0 and $202 thousand in fiscal years 2013 and 2012, respectively. Operating expenses of $595 thousand and $961 thousand in fiscal years 2013 and 2012, respectively, consisted of grant expenditures not covered by grant guidelines or made as part of award matching requirements.

Broadband Initiative - viNGN

viNGN, INC d/b/a Virgin Islands Next Generation Network (viNGN) was incorporated on October 22, 2010, and is owned by the Government of the US Virgin Islands through the Virgin Islands Public Finance Authority.

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

Following is condensed financial information for viNGN for the years ended 2013, 2012, and 2011:

	viNGN		
(In thousands)	**2013**	**2012**	**2011**
Operating revenues	**$ –**	$ –	$ –
Operating expenses	**(6,570)**	(4,751)	(738)
Operating loss	**(6,570)**	(4,751)	(738)
Nonoperating revenues	**7,530**	282	17
Nonoperating income	**7,530**	282	17
Special item: impairment charges	**–**	(364)	(262)
Gain (loss) before capital and in-kind contributions	**960**	(4,833)	(983)
Capital contributions from federal grants	**23,552**	9,516	–
In-kind contributions	**2,337**	–	–
Change in net position	**$ 26,849**	$ 4,683	$ (983)

During 2012, viNGN began management operations and build-out of the broadband fiber optic network utilizing American Recovery and Reinvestment Act (ARRA) federal grant awards. During 2013 and 2012, viNGN received capital contributions from federal grants of $23.5 million and $9.5 million, respectively.

Investment Administration

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

Investments under management for fiscal years 2013, 2012, and 2011, were as follows:

	Restricted Cash and Investments		
(In thousands)	**2013**	**2012**	**2011**
Investments under management	**$ 521,376**	$ 523,667	$ 435,811
Other restricted cash, cash equivalents and investments	**1,958**	1,951	1,936
	$ 523,334	$ 525,618	$ 437,747

DEBT ADMINISTRATION

At year-end, the Authority had approximately $2.0 billion in bonds outstanding as follows.

(In thousands)

	Bonds Outstanding 9/30/2011	New Issuances	Debt Payments	Bonds Outstanding 9/30/2012	**New Issuances**	**Debt Payments**	**Refunded**	**Bonds Outstanding 9/30/2013**
Series 2013 A	$ –	$ –	$ –	$ –	**$ 36,000**	**$ –**	**$ –**	**$ 36,000**
Series 2012 C	–	–	–	–	**35,115**	**–**	**–**	**35,115**
Series 2012 A and B	–	–	–	–	**228,805**	**–**	**–**	**228,805**
Series 2012 A	–	142,640	–	142,640	**–**	**–**	**–**	**142,640**
Series 2010 A and B	399,050	–	–	399,050	**–**	**(1,990)**	**–**	**397,060**
Series 2009 A (Cruzan)	38,640	–	–	38,640	**–**	**(585)**	**–**	**38,055**
Series 2009 A1, A2, B and C	450,380	–	(565)	449,815	**–**	**(24,145)**	**(18,340)**	**407,330**
Series 2009 A (Diageo)	250,000	–	(29,650)	220,350	**–**	**–**	**–**	**220,350**
Series 2006	214,385	–	(2,705)	211,680	**–**	**(2,805)**	**–**	**208,875**
Series 2004 A	75,235	–	(3,805)	71,430	**–**	**(3,995)**	**(14,705)**	**52,730**
Series 2003 A	248,960	–	(3,635)	245,325	**–**	**(3,815)**	**–**	**241,510**
Series 1999 A	81,115	–	(6,950)	74,165	**–**	**(7,395)**	**(66,770)**	**–**
Total	$ 1,757,765	$ 142,640	$ (47,310)	$ 1,853,095	**$ 299,920**	**$ (44,730)**	**$ (99,815)**	**$ 2,008,470**

In September 2013, the Authority issued the Series 2013 A Revenue and Refunding Bonds. The proceeds were used to advance refund the Series 2009 A-1, Series 2009 B, and Series 2004 Bonds (see Note 6).

In December 2012, the Authority issued the 2012 Series C Bonds. The proceeds were loaned to the Government of the Virgin Islands to provide financing of various capital projects approved by the Virgin Islands Legislature (see Note 6).

In November 2012, the Authority issued the Series 2012 A and B Revenue and Refunding Bonds. The proceeds were used to current refund the Series 1999 A Bonds (see Note 6), and to refinance the 2011 A Note and the Series 2010 A Notes (see Note 8).

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

At September 30, 2013, defeased bonds outstanding from prior years amounted to $1.6 million (2009A-1 Series), $16.7 million (2009B Series), $14.7 million (2004 Series) and $11.1 million (1989 Series).

Loans outstanding were as follows:

	(In thousands)						
	Loans Outstanding 9/30/2011	**New Issuance**	**Debt Payments**	**Loans Outstanding 9/30/2012**	**New Issuance**	**Debt Payments**	**Loans Outstanding 9/30/2013**
2013 B Notes	$ –	$ –	$ –	$ –	**$ 40,000**	**$ (40,000)**	**$ –**
2013 A Notes	–	–	–	–	**2,660**	**(295)**	**2,365**
2011 B Revenue Anticipation Notes	–	13,000	(2,860)	10,140	**–**	**(2,097)**	**8,043**
2011 A Notes	32,235	–	(2,319)	29,916	**–**	**(29,916)**	**–**
2010 A1 and A2 Notes	131,400	–	–	131,400	**–**	**(131,400)**	**–**
2009 A/2012 A TIF Notes	14,032	1,668	–	15,700	**–**	**(2,175)**	**13,525**
2009 A 911 Notes	5,819	–	(1,553)	4,266	**–**	**(1,639)**	**2,627**
WICO	22,258	–	(494)	21,764	**–**	**(525)**	**21,239**
Total	$ 205,744	$ 14,668	$ (7,226)	$ 213,186	**$ 42,660**	**$ (208,047)**	**$ 47,799**

In August 2013, the Authority issued the Subordinate Lien Revenue Notes, Series 2013 B. The initial draw on the loan at September 30, 2013, amounted to $40 million and was repaid in full before September 30, 2013. The proceeds of the Series 2013 B Notes were loaned to the Government of the Virgin Islands to pay for certain operating costs and to finance the settlement liability to the US Internal Revenue Service related to the Series 2006 Bond issuance.

In May 14, 2013, the Authority issued the Subordinate Lien Revenue Notes, Series 2013A. The initial draw on the loan at September 30, 2013, totaled $2.7 million. The proceeds of the Series 2013 A Notes were loaned to the Government of the Virgin Islands to finance the costs of acquiring a fleet of police vehicles.

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

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

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

Tax Collections

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

	Year Ending September 30		
(In thousands)	**2013**	**2012**	**2011**
Excise rum tax	**$ 100,118**	$ 97,500	$ 77,641
Gross receipts tax	**$ 52,913**	$ 54,731	$ 48,339
Property tax	**$ 3,308**	$ 3,358	$ –

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

Investment Performance and Agreements

The Authority investments include AAAm (S&P) and Aaa-mf (Moody's) rated money market funds, A-1+ (S&P) and P-1 (Moody's) rated government securities, and A-1 (Moody's) rated commercial securities. Due to declining interest returns, the Authority entered into three debt service agreements with Morgan Stanley Capital Services, Inc., during fiscal year 2002. The agreement was amended in October 2009, and revised in April 2010, to redefine the bond series guaranteed as a result of the 1998 Bond debt refunding. The terms of the agreements provide a guaranteed return in exchange for the guaranty of Authority debt service reserves. The Authority received $1.6 million in fees upon entering into the agreements and a guaranteed average rate of return of 5% to 6% on investments subject to the agreements

Contacting the Company

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

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32 &33 Kongens Gade, Government Hill
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Financial Statements

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

Statements of Net Position

	September 30	
	2013	**2012**
Assets		
Current assets:		
Cash and cash equivalents	**$ 19,412,458**	$ 17,199,611
Restricted cash and cash equivalents	**97,641,235**	114,606,904
Restricted investments, at fair value	**242,114,123**	237,461,470
Receivables, net	**980,405**	1,102,630
Federal grant receivable	**9,876,461**	2,043,714
Restricted loans receivable - Government of the U.S. Virgin Islands	**69,992,511**	54,362,347
Prepaid expenses and other assets	**1,028,691**	822,931
Total current assets	**441,045,884**	427,599,607
Noncurrent assets:		
Restricted investments, at fair value	**183,578,775**	173,549,569
Restricted loans receivable - Government of the U.S. Virgin Islands	**1,933,937,079**	1,945,424,909
Bond issuance costs	**50,726**	1,249,648
Capital assets, net of depreciation and amortization	**98,644,159**	66,178,285
Total noncurrent assets	**2,216,210,739**	2,186,402,411
Total assets	**2,657,256,623**	2,614,002,018

(Continued)

Statements of Net Position (continued)

	September 30 2013	2012
Liabilities		
Current liabilities:		
Accrued expenses and other liabilities	**$ 13,972,002**	$ 8,423,729
Loans payable related to capital assets	**–**	532,988
Notes payable	**10,902,511**	9,632,347
Deferred revenue	**–**	1,576
Bonds payable	**31,100,000**	44,730,000
Interest payable	**51,616,230**	46,061,421
Total current liabilities	**107,590,743**	109,382,061
Noncurrent liabilities:		
Loans payable related to capital assets	**21,239,326**	21,231,149
Notes payable	**15,657,079**	181,789,909
Bonds payable (including a reduction of $9,086,984 and $9,448,115 in 2013 and 2012, respective due to deferred amounts on defeased and refunded bonds)	**1,968,283,016**	1,798,916,885
Due to Government of the U.S. Virgin Islands - construction funds	**333,099,499**	348,004,106
Due to Government of the U.S. Virgin Islands - debt service funds	**132,731,715**	105,949,289
Total noncurrent liabilities	**2,471,010,635**	2,455,891,338
Total liabilities	**2,578,601,378**	2,565,273,399
Net position		
Net investment in capital assets	**55,928,546**	30,383,479
Restricted	**26,933,190**	27,083,060
Unrestricted deficit	**(4,206,491)**	(8,737,920)
Total net position	**$ 78,655,245**	$ 48,728,619

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended September 30 2013	2012
Operating revenues:		
Charges for services	**$ 13,106,161**	$ 9,279,024
Other operating revenues	**388,428**	1,827,912
Total operating revenues	**13,494,589**	11,106,936
Operating expenses:		
General and administrative	**16,789,634**	18,547,031
Depreciation & Amortization	**4,196,347**	2,926,610
Impairment charges - WICO	**–**	91,875
Total operating expenses	**20,985,981**	21,565,516
Operating loss	**(7,491,392)**	(10,458,580)
Nonoperating revenues (expenses):		
Proceeds from settlement	**2,950,000**	–
Interest income:		
Cash, cash equivalents and investments	**5,625,648**	4,757,461
Loans receivable	**105,730,269**	101,546,879
Budgetary allocation	**4,885,675**	3,807,376
Federal grants	**7,520,181**	470,502
Amortization of bond discount and issuance costs	**(4,830,753)**	(4,467,782)
Amortization of deferred amount	**(1,797,155)**	(924,530)
Bank commitment fees	**(787,500)**	(787,500)
Interest expense	**(107,080,350)**	(102,928,467)
Gain (loss) on sale of fixed assets	**12,773**	(43,315)
Contribution to the Government of the U.S. Virgin Islands	**(700,000)**	(700,000)
Total nonoperating income	**11,528,788**	730,624
Special item:		
Impairment charges - viNGN	**–**	(363,930)
Gain (loss) before payments on behalf of the Government of the U.S. Virgin Islands, contributions and grants	**4,037,396**	(10,091,886)
Payments on behalf of the Government of the U.S. Virgin Islands	**–**	(245,253)
Capital contributions from Federal grants	**23,552,499**	9,516,402
In-kind contribution	**2,336,731**	–
Changes in net position	**29,926,626**	(820,737)
Total net position at beginning of year	**48,728,619**	49,549,356
Total net position at end of year	**$ 78,655,245**	$ 48,728,619

See accompanying notes.

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

Statements of Cash Flows

	Year Ended September 30 2013	2012
Operating activities		
Cash received from customers	**$ 14,407,800**	$ 9,204,237
Cash paid to suppliers and employees for services	**(12,179,610)**	(19,201,221)
Cash received from settlement	**3,235,396**	–
Other cash receipts	**26,456**	11,249
Net cash provided by (used in) operating activities	**5,490,042**	(9,985,735)
Investing activities		
Purchases of investments	**(803,032,081)**	(680,191,056)
Interest received on cash, cash equivalents and investments	**950,309**	1,194,955
Investment maturities and sales	**790,488,924**	605,119,064
Net cash used in investing activities	**(11,592,848)**	(73,877,037)
Capital and related financing activities		
Proceeds from the sale of property and equipment	**–**	13,000
Acquisition of property and equipment	**(34,297,230)**	(16,934,877)
Capital contribution-federal grants	**13,421,147**	7,701,120
Interest payment on long-term debt related to capital assets	**(1,350,117)**	(1,381,587)
Principal payments on loans payable related to capital assets	**(509,324)**	(493,340)
Net cash used in capital and related financing activities	**(22,735,524)**	(11,095,684)
Noncapital financing activities		
Funds received for debt service	**321,392,901**	310,100,107
Contributions to Cruzan	**(44,861,720)**	(33,546,075)
Contributions to Diageo	**(39,089,790)**	(23,137,136)
Bank and other fees	**(1,191,993)**	(837,034)
Proceeds from issuance of bonds and notes payable	**317,613,266**	91,735,532
Budgetary allocation	**4,885,675**	3,807,376
Interest paid on bonds and notes payable	**(99,866,361)**	(98,586,061)
Federal grants	**9,818,822**	242,070
Payment of issuance costs	**(7,500,362)**	(969,686)
Transfer to the Government of the U.S. Virgin Islands	**(63,107,220)**	(55,200,659)
Principal payments on bonds and notes payable	**(350,115,895)**	(54,042,292)
Payments on behalf of Government of the U.S. Virgin Islands	**(33,891,815)**	(37,900,049)
Net cash provided by noncapital financing activities	**14,085,508**	101,666,093
Net increase (decrease) in cash, cash equivalents and restricted cash	**(14,752,822)**	6,707,637
Cash, cash equivalents and restricted cash at beginning of year	**131,806,515**	125,098,878
Cash, cash equivalents and restricted cash at end of year	**$ 117,053,693**	$ 131,806,515

(Continued)

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

Statements of Cash Flows (continued)

	Year Ended September 30	
	2013	**2012**
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	**$ (7,491,392)**	$ (10,458,580)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Provision for doubtful accounts	**(22,772)**	164,320
Depreciation and amortization	**4,196,347**	2,926,610
Impairment of capital assets - WICO	**–**	91,875
Proceeds from settlement	**2,950,000**	–
Changes in operating assets and liabilities that increase (decrease) cash:		
Receivables	**1,251,511**	(1,903,449)
Accrued expenses and other liabilities	**4,829,175**	(742,437)
Prepaid expenses and other assets	**(222,827)**	(76,074)
Customer deposits	**–**	12,000
Total adjustments	**12,981,434**	472,845
Net cash provided by (used in) operating activities	**$ 5,490,042**	$ (9,985,735)

See accompanying notes.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

General Obligation Bonds

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

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies

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

Use of Estimates

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

Basis of Presentation and Accounting

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

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

The Authority accounts for refundings of debt under the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt by Proprietary Activities.* This Statement establishes standards of accounting and financial reporting for current and advance refundings resulting in defeasance of debt reported by proprietary activities. Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. This Statement requires for both current and advance refundings, that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Basis of Presentation and Accounting (continued)

over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount should be reported on the statements of condition (net position) as an addition to or deduction from the new debt.

Basic Financial Statements

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

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

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

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

Liabilities that relate to specific restricted resources which exceed those resources are reported as a reduction of unrestricted amounts. All assets and liabilities of bond reserve accounts are considered restricted resources.

Statements of Cash Flows

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

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Activities of the Authority

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

Operations: Overall investment management and administrative activities of the Authority.

The West Indian Company (WICO): Property management activities related to the management of the WICO, a wholly-owned subsidiary consisting primarily of servicing cruise ships owned by established shipping lines.

King's Alley Management, Inc.(KAMI): Property management activities related to KAMI, a wholly owned subsidiary, formed on July 22, 2001, consisting primarily of managing the King's Alley Hotel in Christiansted, St. Croix, and a shopping center in Frederiksted, St.Croix.

Virgin Islands Next Generation Network (viNGN): Operating entity in connection with the broadband expansion project formed on March 8, 2010, a wholly-owned subsidiary of the Authority. viNGN was incorporated on October 22, 2010, and its articles of incorporation were duly filed with the Office of the Lieutenant Governor of the United States Virgin Islands on October 12, 2010.

Office of Economic Opportunity (OEO): Oversight of the activities attributable to the American Recovery and Reinvestment Act of 2009 (ARRA) formed on June 12, 2009. OEO is a business unit of the Authority.

The three wholly owned subsidiaries of the Authority (WICO, KAMI, and viNGN) are major component units. WICO and viNGN are governed by separate boards than the Authority, do not directly provide services to the Authority, and are not expected to repay outstanding debt from resources of the Authority. Additionally, viNGN has significant transactions with the Authority in the form of loans and federal grant subrecipient funding. KAMI is governed by the same board as the Authority, but does not provide services to the Authority. The Authority's management has chosen to blend the financial information of the major component units. See Note 15 for condensed financial statements of the major component units.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

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

Receivables

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

Investments

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

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Investments (continued)

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

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

Bonds Payable

Bonds payable managed by the Authority are as follows:

Series 2013 A Revenue and Refunding Bonds: The proceeds of the bonds were issued to (i) refund a portion of the Authority's 2004A Bonds, 2009A1 Bonds, and 2009B Bonds, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2013A Bonds.

Series 2012 C Revenue Bonds: The proceeds of the bonds were issued to (i) finance all or a portion of the costs of certain capital projects, (ii) fund capitalized interest on a portion of the 2012C Bonds, and (iii) finance costs of issuance of the 2012C Bonds.

Series 2012 A and B Revenue and Refunding Bonds: The proceeds of the bonds were issued to (i) refund the Authority's 1999A Bonds, 2011A Note, and 2010A Notes, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2012 A and B Bonds.

Series 2012 A Revenue Bonds: The proceeds of the bonds were issued to: (i) finance various operating expenses and other obligations of the Government, (ii) establish debt service reserves, and (iii) finance certain costs of issuance of the Series 2012A Bonds.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Bonds Payable (continued)

Series 2010 A and B Revenue Bonds: The proceeds of the bonds were issued to (i) finance working capital requirements of certain operating expenses and other obligations of the Government, (ii) refinance a portion of the B1 and B2 Bond Anticipation Notes, (iii) establish debt service reserves, and (iv) finance costs of issuance of the 2010 A and B Bonds.

Series 2009 A Revenue Bonds (Cruzan): The proceeds of the bonds were issued to (i) finance the costs of the development, acquisition, construction and installation of a wastewater treatment facility, (ii) fund certain preliminary costs of the alteration, upgrade, expansion and renovation of the Cruzan distillery on St. Croix., (iii) establish debt service reserves, and (iv) finance costs of issuance of the 2009A Bonds.

Series 2009 A1, A2, B and C Revenue and Refunding Bonds: The proceeds of the bonds were issued to (i) finance various capital projects of the Government, (ii) establish debt service reserves, (iii) finance costs of issuance of the Series 2009 A1, A2, B and C Bonds, and (iv) refund a portion of the Authority's Series 1998 Revenue Bonds.

Series 2009 A Revenue Bonds (Diageo): The proceeds of the bonds were issued to: (i) make a loan to the Government of the Virgin Islands to provide a grant to Diageo USVI Inc. to finance the costs of the acquisition, design, development, construction and equipping of a rum production and maturation warehouse facility to be located on St. Croix, (ii) pay in full the principal and interest due on the Subordinated Revenue Series 2009 A Bond Anticipation Notes, (iii) pay capitalized interest on the Series 2009 A Bonds, (iv) fund the Series 2009 A Senior Lien Debt Service Reserve Subaccount, and (v) pay the costs of issuing the Series 2009 A Bonds.

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

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Bonds Payable (continued)

Series 2004 A Revenue Bonds: The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix (ii) finance the repairs, renovations and construction of solid waste facilities in the Territory (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the newly created Virgin Islands Waste Management Authority, (v) fund the Series 2004A Senior Lien Debt Service Reserve Subaccount and (vi) pay certain costs of issuing the Series 2004A Bonds.

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

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

Payments on Behalf of the Government of the US Virgin Islands

Payments on behalf of the Government of the Virgin Islands for the fiscal years ended September 30, 2013 and 2012 include payments for capital projects.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

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

During the fiscal years ended September 30, 2013 and 2012, the following amounts were disbursed and reported as a reduction of Restricted resources held for the Government of the United States Virgin Islands in the statements of net position and as payments on behalf of the Government of the United States Virgin Islands in the statements of cash flows.

Funding source	2013	2012
2012C Bonds	**$ 9,472,727**	$ –
2009 A1, A2, B, C R&R Bond	**4,179,202**	11,592,440
2009A Diageo - Community fund	**412,296**	1,943,078
2006 Bonds	**615,153**	4,483,714
2004 A Bonds	**4,286,675**	3,850,289
2003 A Bonds	**4,730,723**	11,515,870
2013 A Notes	**2,245,266**	–
2009/2012 A TIF Notes	**–**	1,848,098
Administrative funds	**448,715**	2,567,805
	$ 26,390,757	$ 37,801,294

During the fiscal years ended September 30, 2013 and 2012, there was $0 and $245 thousand, respectively, of capital expenditures disbursed from unrestricted cash and restricted investments related to the 1992 Revenue bonds. The disbursements are recorded as payments on behalf of the Government of the United States Virgin Islands in the statements of revenues, expenses and changes in net position.

During the fiscal years ended September 30, 2013 and 2012, viNGN, as subrecipient of Federal awards to the Office of Economic Opportunity, made reimbursable expenditures of $39.0 million and 9.7 million respectively (see Note 9) and received federal grant reimbursements of $23.2 million and $7.7 million, respectively.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

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

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

During the fiscal years ended September 30, 2013 and 2012, the Authority charged the Government of the Virgin Islands fees amounting to $3.5 million and $1.6 million, respectively, for its investment and bond management services.

During the fiscal years ended September 30, 2013 and 2012, the Authority charged $75,000 to the Tobacco Settlement Financing Corporation for annual investment and bond management services.

Taxes

The Authority is a tax-exempt entity created by statute. The Authority shall not be required to pay any taxes or assessments on any of the property acquired or to be acquired by it, or on any of its operations or activities, or on any income derived from any of its operations or activities. Prior to June 2003, WICO was required, under a specific bill, to contribute the greater of ten percent of net revenues, or $500,000 to the General Fund of the Government of the Virgin Islands. In June 2003, the Legislature approved and amended the annual payment in lieu of taxes to the greater of ten percent of net revenues, as defined or $1,000,000. On October 10, 2007, the legislature decreased the $1,000,000 annual in lieu of tax payment to $700,000 retroactive to fiscal year 2006 and thereafter. The liability for contributions to the Government of the Virgin Islands as of September 30, 2013, is $4.7 million and represents payments in lieu of taxes due for the fiscal year 2006 and for the fiscal years 2008 through 2013. WICO is negotiating with the Government of the Virgin Islands to resolve the outstanding tax liability and reduce future tax obligations.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

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

The Authority evaluates whenever events or changes in circumstances indicate that the carrying amount of its capital assets have been impaired following the guidance of GASB 42 "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*". Impairment charges for the West Indian Company for the fiscal year ended September 30, 2012, are included in the statement of revenues, expenses and changes in net position.

Operating and Non-operating Revenues

Operating revenues of the Authority include revenues of the operating fund of the Authority, revenues from the West Indian Company complex, and King's Alley Management, Inc. complex. Non-operating revenues consist of settlement proceeds, interest and dividend income generated from the restricted investments invested in short term investment instruments, federal grants, and budgetary allocations for operations. During the fiscal year ended September 30, 2013, the Authority's operating budget of $7.7 million included $4.9 million of budgetary allocations from excess matching funds. Unrestricted funds of $1.4 million and $1. 4 million were budgeted

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Operating and Non-operating Revenues (continued)

for the Office of Economic Opportunity and administrative operations, respectively. During the fiscal year ended September 30, 2012, the Authority's operating budget of $7.1 million included $3.5 million of budgetary allocations from excess matching funds for administrative operations and $245 thousand for the Office of Economic Opportunity from unrestricted funds.

Bond Discounts and Issuance Costs

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

Intra-account Transfers

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

Fair Value of Financial Instruments

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

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

Cash and cash equivalents and due to/from the Government of United States Virgin Islands, receivables, accounts payable and other accrued liabilities: the carrying amounts reported at cost or amortized cost in the statements of net position for these instruments which amounts approximate their fair values.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Effect of Recent GASB Statements

During the fiscal year ended September 30, 2013, the Authority implemented GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34.* The Statement modifies requirements for component unit financial reporting and disclosures. The implementation of Statement 61 did not have a material effect on the Authority's net position, revenues and expenses, or cash flows.

During the fiscal year ended September 30, 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The Statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The implementation of Statement 63 did not have a material effect on the Authority's net position, revenues and expenses, or cash flows.

Future Adoption of GASB Statements

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

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

2. Cash and Cash Equivalents

Cash and cash equivalents, segregated by category at September 30, 2013 and 2012, are as follows:

	Bank Balance	Carrying Amount
2013		
Restricted	**$ 99,015,246**	**$ 97,641,235**
Unrestricted	**18,810,967**	**19,412,458**
	$ 117,826,213	**$ 117,053,693**

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

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

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

At September 30, 2013, $79,839,692 or 67.7% of the Authority's deposits in banks were held at Bank of New York, $35,928,148 or 30.5% were held at Banco Popular de Puerto Rico, and $2,057,673 or 1.8% were held at First Bank Puerto Rico. Petty cash of $700 was held at WICO. Deposits held at Banco Popular de Puerto Rico and First Bank Puerto Rico were fully collateralized.

At September 30, 2012, $95,937,509 or 72.5% of the Authority's deposits in banks were held at Bank of New York, $34,415,813 or 26.0% were held at Banco Popular de Puerto Rico, and $2,052,763 or 1.5% were held at First Bank Puerto Rico. Petty cash of $200 was held at KAMI. Deposits held at Banco Popular de Puerto Rico and First Bank Puerto Rico were fully collateralized.

3. Restricted Investments

Investments include investments restricted for specific purposes and investments held in trust. Pursuant to the requirements of the Indenture of Trust, certain assets of the Government are maintained in a reserve account controlled by the Authority, and may be used only for the payment of principal and interest on the Series 2013 A Bonds, Series 2013 B Notes, Series 2013 A Notes, Series 2012 C Bonds, Series 2012 A & B Bonds, Series 2012 A Bonds, Series 2011 B Revenue Anticipation Notes, Series 2010 A & B Bonds, Series 2009 A Bonds (Cruzan), Series 2009 A1, A2, B, & C Bonds, Series 2012 and 2009 A TIF Notes, Series 2009 A Bonds (Diageo), Series 2009 A 911 Notes, Series 2006 Bonds, Series 2004 A Bonds, and the Series 2003 A Bonds.

Restricted investments in the reserve accounts at September 30, 2013, were as follows:

	September 30, 2013			
	Debt Service	**Construction Funds**	**Project Funds**	**Total**
Series 2013 A Matching Bond	$ 4,061,929	$ –	$ –	$ 4,061,929
Series 2012 C Revenue Bonds	7,096,998	25,563,125	–	32,660,123
Series 2012 A & B Revenue and Refunding Bonds	101,826	–	–	101,826
Series 2012 A Revenue Bonds	14,828,903	25,033,792	–	39,862,695
Series 2010 Series A & B Revenue Bonds	39,790,327	–	–	39,790,327
Series 2009 A Bonds (Cruzan)	2,967,337	–	–	2,967,337
Series 2009 A1, A2, B, C Revenue and Refunding Bonds	46,945,019	14,382,113	–	61,327,132
Series 2009 A Bonds (Diageo)	26,521,085	–	–	26,521,085
Series 2006 Bonds	558	499,938	–	500,496
Series 2004 A Bonds	7,567,777	3,669,456	–	11,237,233
Series 2003 A Revenue Bonds	4,809	8,763,828	–	8,768,637
Series 1999 A Revenue Bonds	48,647,314	–	–	48,647,314
Series 1998 A Revenue Bonds	147,557,145	–	–	147,557,145
Subtotal Bonds	346,091,027	77,912,252	–	424,003,279
Series 2013 A Notes	81,790	–	220,037	301,827
Series 2011 A Notes	–	–	957,079	957,079
Series 2009/2012 A TIF Notes	276,789	–	–	276,789
Series 2009 A 911 Notes	153,924	–	–	153,924
Subtotal Notes	512,503	–	1,177,116	1,689,619
Total Bonds and Notes	$ 346,603,530	$ 77,912,252	$ 1,177,116	$ 425,692,898

3. Restricted Investments (continued)

Restricted investments in the reserve accounts at September 30, 2012, were as follows:

	September 30, 2012			
	Debt Service	Construction Funds	Project Funds	Total
Series 2012 A Revenue Bonds	$ 16,579,496	$ 60,000,000	$ –	$ 76,579,496
Series 2010 A & B Revenue Bonds	39,790,481	–	–	39,790,481
Series 2009 A Bonds (Cruzan)	2,795,338	39,694	–	2,835,032
Series 2009 A1, A2, B, C Revenue and Refunding Bonds	47,013,262	18,562,408	–	65,575,670
Series 2009 A Bonds (Diageo)	23,344,894	901,689	–	24,246,583
Series 2006 Bonds	1,091,160	1,110,195	–	2,201,355
Series 2004 A Bonds	7,640,252	7,948,692	–	15,588,944
Series 2003 A Revenue Bonds	1,365,586	12,288,529	–	13,654,115
Series 1999 A Revenue Bonds	42,871,213	–	–	42,871,213
Series 1998 A Revenue Bonds	117,871,905	–	–	117,871,905
Subtotal Bonds	300,363,587	100,851,207	–	401,214,794
Series 2011 A Notes	635,504	–	7,909,427	8,544,931
Series 2010 A Notes	81,771		248,602	330,373
Series 2009 A TIF Notes	459,002	–	–	459,002
Series 2009 A 911 Notes	461,939	–	–	461,939
Subtotal Notes	1,638,216	–	8,158,029	9,796,245
Total Bonds and Notes	$ 302,001,803	$ 100,851,207	$ 8,158,029	$ 411,011,039

Restricted investments, categorized by investment type, and weighted average maturity, at September 30, 2013 and 2012, are as follows:

	2013		2012	
	Fair Value	**Weighted Average Maturity *(Years)***	**Fair Value**	**Weighted Average Maturity *(Years)***
Money Market Funds	**$ 370,353,398**		$ 335,864,520	
Portfolio investements:				
Commercial paper	**39,148,477**	**0.003**	39,142,086	0.003
Government agency notes	**16,191,023**	**0.003**	36,004,433	0.55
Total fair value	**55,339,500**	**0.003**	75,146,519	0.26
Total investments	**$ 425,692,898**		$ 411,011,039	

3. Restricted Investments (continued)

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

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

At September 30, 2013, the Authority's investment in money market funds were rated AAAm by Standard & Poor's, Aaa-mf by Moody's Investor Service. The Authority's investments in commercial securities were rated A-1 by Moody's. The Authority's investments in Federal Government instruments was rated A-1+ by Standard & Poor's and P-1 Credit Rating by Moody's Investor Service.

At September 30, 2012, the Authority's investment in money market funds were rated AAAm by Standard & Poor's, and Aaa-mf by Moody's Investor Service. The Authority's investments in commercial securities were rated A-1 by Standard & Poor's and P-2 by Moody's. The Authority's investments in Federal Government instruments was rated AA+ by Standard & Poor's and Aaa by Moody's Investor Service.

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in one issuer. At September 30, 2013, more than 5% of the Authority's investments and restricted cash were invested in: Goldman Financial Square Money Market No. 524 (56.25%), Federated Gov't Oblig. FD#5 (18.09%), Chesham Fin LLC CDPS (9.20%), and Invesco Money Market (7.62%).

At September 30, 2012, more than 5% of the Authority's investments and restricted cash were invested in: Goldman Financial Square Money Market No. 524 (46.86%), Federated Government Obligation Fund #5 (18.63%), Silver Tower FDG LLC (9.52%), Goldman Financial Square Money Market No. 474 (7.11%), and Invesco Money Market (6.49%).

3. Restricted Investments (continued)

Custodial Credit Risk. The Authority does not have a custodial credit risk policy. This is the risk that the Government of the United States Virgin Islands will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2013 and 2012, all investments under management by the Authority were held in the name of The Bank of New York Trust Company, N.A., as Trustee for the Authority. Investments in the trust accounts are limited to the investments permitted by the trust indenture.

4. Restricted Loans Receivable

The Authority loaned the proceeds of the Series 2013 B Revenue Notes, Series 2013 A Revenue Notes, Series 2012 C Revenue Bonds, Series 2012 A and B Revenue and Refunding Bonds, Series 2011 A Broadband Bond Anticipation Note, Series 2010 A Bond Anticipation Notes, Series 2009 A 911 Notes, Series 2006 Revenue Bonds, Series 2003 A Bonds, and the 1999 Bonds Series A to the Government of the Virgin Islands. The loans, which are secured with pledged gross receipts taxes collected pursuant to Title 3, Section 43 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable (see Note 6 and Note 8).

The Authority loaned the proceeds of the Series 2013 A Bonds, Series 2012 A Bonds, Series 2010 A & B Bonds, Series 2009 A Bonds (Cruzan), Series 2009 A1, A2, B & C Bonds, Series 2009 A Bonds (Diageo), and the Series 2004 A Bonds to the Government of the Virgin Islands. The loans, which are secured with pledged matching fund revenues pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, bear the same interest rates, maturities, and repayment terms as the bonds payable (see Note 6).

The Authority loaned the proceeds of the Series 2012 and 2009 A TIF Notes to the Government of the Virgin Islands. The loan, which is secured by Island Crossings Incremental Tax Revenue, bears the same interest rate, maturity, and repayment terms as the note payable (see Note 8).

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

4. Restricted Loans Receivable (continued)

On September 30, 2013, the Government of the Virgin Islands advanced loan payments due on October 1, 2013. A summary of loan payments by associated bond series follows:

Bonds Series	Payment
2012 A & B Bonds	$ 10,460,000
2010 A & B Bonds	2,065,000
2009 Bonds (Cruzan)	605,000
2009 A1, A2, B & C Bonds	7,015,000
2009 A Bonds (Diageo)	4,040,000
2006 Bonds	2,905,000
2003 A Bonds	4,010,000
	$ 31,100,000

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

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

5. Capital Assets

The capital assets for the fiscal years ended September 30, 2013 and 2012 follows:

	Balance 9/30/2012	Additions	Impairment/ Disposal	Transfers	Balance 9/30/2013
Land and land improvements	**$ 5,763,178**	**$ –**	**$ –**	**$ –**	**$ 5,763,178**
Buildings and building improvements	**61,290,348**	**53,859**	**–**	**29,839**	**61,374,046**
Personal property and equipment	**5,286,370**	**514,000**	**(73,244)**	**1,407,581**	**7,134,707**
Intangible assets	**8,064,000**	**53,000**	**–**	**–**	**8,117,000**
Total	**80,403,896**	**620,859**	**(73,244)**	**1,437,420**	**82,388,931**
Less accumulated depreciation	**(25,782,484)**	**(3,658,747)**	**73,244**	**–**	**(29,367,987)**
Less accumulated amortization	**(454,896)**	**(537,600)**	**–**	**–**	**(992,496)**
	54,166,516	**(3,575,488)**	**–**	**1,437,420**	**52,028,448**
Construction in progress	**12,011,769**	**36,041,362**	**–**	**(1,437,420)**	**46,615,711**
Total capital assets, net	**$ 66,178,285**	**$ 32,465,874**	**$ –**	**$ –**	**$ 98,644,159**

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

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

6. Bonds Payable

A summary of bond activity for the fiscal years ended September 30, 2013 and 2012 follows (in thousands):

	Bonds Outstanding 9/30/2012	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2013
			(In thousands)		
Series 2013 A	**$ –**	**$ 36,000**	**$ –**	**$ –**	**$ 36,000**
Series 2012 C	**–**	**35,115**	**–**	**–**	**35,115**
Series 2012 A & B	**–**	**228,805**	**–**	**–**	**228,805**
Series 2012 A	**142,640**	**–**	**–**	**–**	**142,640**
Series 2010 A & B	**399,050**	**–**	**(1,990)**	**–**	**397,060**
Series 2009 A (Cruzan)	**38,075**	**–**	**(585)**	**–**	**37,490**
Series 2009 A1, A2, B & C	**420,730**	**–**	**(24,145)**	**(18,340)**	**378,245**
Series 2009 A (Diageo)	**250,000**	**–**	**–**	**–**	**250,000**
Series 2006	**211,680**	**–**	**(2,805)**	**–**	**208,875**
Series 2004 A	**71,430**	**–**	**(3,995)**	**(14,705)**	**52,730**
Series 2003 A	**245,325**	**–**	**(3,815)**	**–**	**241,510**
Series 1999 A	**74,165**	**–**	**(7,395)**	**(66,770)**	**–**
Total	**$ 1,853,095**	**$ 299,920**	**$ (44,730)**	**$ (99,815)**	**$ 2,008,470**

	Bonds Outstanding 9/30/2011	New Issuances	Debt Payments	Bonds Outstanding 9/30/2012
		(In thousands)		
Series 2012 A	$ –	$ 142,640	$ –	$ 142,640
Series 2010 A & B	399,050	–	–	399,050
Series 2009 A (Cruzan)	38,640	–	(565)	38,075
Series 2009 A1, A2, B & C	450,380	–	(29,650)	420,730
Series 2009 A (Diageo)	250,000	–	–	250,000
Series 2006	214,385	–	(2,705)	211,680
Series 2004 A	75,235	–	(3,805)	71,430
Series 2003 A	248,960	–	(3,635)	245,325
Series 1999 A	81,115	–	(6,950)	74,165
Total	$ 1,757,765	$ 142,640	$ (47,310)	$ 1,853,095

6. Bonds Payable (continued)

Bonds payable at September 30, 2013 and 2012, in which federal arbitrage regulations apply, are comprised of the following (in thousands):

	2013	2012
2013 Series A Revenue & Refunding Bonds Interest at 5.00% to 5.25%	**$ 36,000**	$ –
2012 Series C Revenue Bonds Interest at 3.00% to 5.00%	**35,115**	–
2012 Series A and B Revenue & Refunding Bonds Interest at 2.25% to 5.25%	**228,805**	–
2012 Series A Revenue Bonds Interest at 3.80% to 4.50%	**142,640**	142,640
2010 Series A and B Revenue Bonds Interest at 4.00% to 5.25$	**397,060**	399,050
2009 Series A Revenue Bonds (Cruzan) Interest at 3.00% to 6.00%	**37,490**	38,075
2009 Series A1, A2, B & C Revenue & Refunding Bonds Interest at 3.00% to 5.00%	**378,245**	420,730
2009 Series A Revenue Bonds (Diageo) Interest at 6.00% to 6.75%	**250,000**	250,000
2006 Series Revenue Bonds Interest at 3.50% to 5.00%	**208,875**	211,680
2004 Series A Revenue Bonds Interest at 4.00% to 5.25%	**52,730**	71,430
2003 Series A Revenue Bonds Interest at 4.00% to 5.25%	**241,510**	245,325
1999 Series A Revenue Bonds Interest at 5.625% to 6.50%	**–**	74,165
Total bonds payable	**2,008,470**	1,853,095
Less: Current portion	**(31,100)**	(44,730)
Less: Deferred amount on defeased and refunded bonds	**(9,087)**	(9,448)
Long-term portion of bonds payable	**1,968,283**	1,798,917

On September 19, 2013, the Authority issued the Series 2013 A Revenue and Refunding Bonds, the proceeds of which amounted to $36,000,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Eighth Supplemental Indenture and the Series 2013 Loan Notes issued by the Government. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2013 A Bonds were issued to: (i) refund a portion of the Series 2004 A Bonds, Series 2009 A1 Bonds, and Series 2009 B Bonds, (ii) fund the Series 2013 A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2013 A Bonds. The Series 2013 A Bonds mature from 2018 to 2024 at an interest rate of 5.0% to 5.25%. The proceeds of the Series 2013 A Revenue and Refunding Bonds were placed in an irrevocable trust to provide for future debt service payments on the Series 2004 A, Series 2009 A1, and Series 2009 B Bonds. At September 30, 2013, the outstanding principal of the defeased Series 2004 A, Series 2009 A1, and Series 2009 B Bonds is $14,705,000, $1,600,000, and $16,740,000, respectively. 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 loss of approximately $10.9 million and an economic loss of approximately $1.5 million.

6. Bonds Payable (continued)

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

On November 20, 2012, the Authority issued the Series 2012 A and B Revenue and Refunding Bonds, the proceeds of which amounted to $228,805,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The Series 2012A Bonds were issued to (i) refund the outstanding Series 1999A Bonds, (ii) refund the outstanding 2010 A1 & A2 Notes, (iii) pay the costs and expenses of issuing and delivering the Series 2012 A Bonds, and (iv) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve required related to the Series 2012 A Bonds. The Series 2012 A Bonds mature from 2017 to 2032 at an interest rate of 2.25% to 5.0%. The Series 2012 B Bonds were issued to (i) refinance the outstanding 2011 A Notes, which initially financed the Broadband Project, (ii) pay the costs and expenses of issuing and delivering the Series 2012 B Bonds, and (iii) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve required related to the Series 2012 B Bonds. The Series 2012 B Bonds mature in 2027 at an interest rate of 5.25%.

The current refunding of the Series 1999 A Bonds, on November 20, 2012, 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 $11.9 million and an economic gain of approximately $7.7 million.

On September 7, 2012, the Authority issued the Series 2012 A Revenue Bonds, the proceeds of which amounted to $142,640,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Seventh Supplemental Indenture and the Series 2012 Loan Notes issued by the Government of the United States Virgin Islands. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the bonds. The bonds are limited special obligations of the

6. Bonds Payable (continued)

Authority. The Series 2012 A Bonds were issued to: (i) finance various operating expenses and other obligations of the Government, (ii) fund the Series 2012 A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2012 A Bonds. The Series 2012 A Bonds mature from 2022 to 2032 at an interest rate of 4.0% to 5.0%.

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

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

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

6. Bonds Payable (continued)

On October 1, 2009, the Authority issued the Series 2009 A1, Series 2009 A2, Series 2009 B, and Series 2009 C Revenue and Refunding Bonds, the proceeds of which amounted to $458,840,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Fourth Supplemental Indenture and the Series 2009 Loan Notes issued by the Government. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2009 A1 and the Series 2009 A2 Bonds were issued to: (i) finance various capital projects of the Government , (ii) fund the Series 2009 A Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 A1 and 2009 A2 Bonds. The Series 2009 A1 Bonds amounted to $86,350,000 and mature from 2010 to 2039 at interest rates from 3.00% to 5.00%. The Series 2009 A2 Bonds amount to $8,650,000 and mature from 2010 to 2011 at an interest rate of 3.00%. The Series 2009 B Bonds were issued to: (i) current refund the Series 1998 A Revenue and Refunding Bonds (Senior Lien/Refunding Bonds), (ii) fund the Series 2009 B Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 B Bonds. The Series 2009 B Bonds amount to $266,330,000 and mature from 2010 to 2025 at an interest rate of 5.00%. The Series 2009 C Bonds were issued to: (i) current refund the Series 1998 E Revenue and Refunding Bonds (Subordinate Lien/Capital Program Bonds), (ii) fund the Series 2009 C Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 C Bonds. The Series 2009 C Bonds amounted to $97,510,000, and mature from 2010 to 2022 at an interest rate of 5.00%. The Series 2009 Bonds are subject to optional redemption by the Authority on or after October 1, 2019 at redemption price of 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

6. Bonds Payable (continued)

On July 9, 2009, the Authority issued the Series 2009 A Bonds (Diageo), the proceeds of which amounted to $250,000,000. These bonds are secured by a pledge of Diageo Matching Fund Revenues (Matching Funds generated from the sale of Captain Morgan rum products), which includes certain funds established under the original indenture, the Third Supplemental Indenture and the 2009 Matching Fund Loan Note – Diageo Project, Series A issued by the Government. The bonds bear interest at 6.00% to 6.75% and mature from 2013 to 2037. The proceeds were loaned to the Government of the United States Virgin under the same terms as the bonds. The bonds are limited special obligations of the Authority. The bonds were issued to: (i) provide a grant to Diageo USVI, Inc. ("Diageo USVI") to finance the costs of the acquisition, design, development, construction and equipping of a rum production and maturation warehouse facility to be located on St. Croix (the "Diageo Project") (ii) redeem the Subordinated Revenue Bond Anticipation Notes (Virgin Islands Matching Fund Loan Notes – Diageo Project) Series 2009 A issued to finance preliminary costs of the Diageo Project (iii) fund the Series 2009 A Senior Lien Debt Service Reserve Account, (iv) pay capitalized interest on the Series 2009 A Bonds, and (v) finance certain costs of issuance of the Series 2009 A Bonds. The Series 2009 A Bonds maturing on or after October 1, 2020 shall be subject to optional redemption on or after October 1, 2019 at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

In association with the Series 2009 A Bonds, the Authority entered into an agreement with Diageo USVI, Inc. (Diageo), on June 17, 2008. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to Diageo of 49.5% – 57.0%.

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

6. Bonds Payable (continued)

The advance refunding of the 2024 and 2029 maturities of the Series 1999 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 Series 2006 Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2024 to 2029 maturities of the Series 1999 A Bonds. Approximately $175,125,168 of funds was deposited into the Escrow Fund accounts. On October 1, 2010, the defeased 1999 Series A Bonds were redeemed in full in the amount of $162,870,000.

On December 1, 2004 the Authority issued the Series 2004 A Bonds, the proceeds of which amounted to $94,000,000. The Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2024. The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix (ii) finance the repairs, renovations and construction of solid waste facilities in the Territory (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the newly created Virgin Islands Waste Management Authority, (v) fund the Series 2004 A Senior Lien Debt Service Reserve Subaccount and (vi) pay certain costs of issuing the Series 2004 A Bonds. The Series A Bonds are not subject to optional redemption prior to October 1, 2014.

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

6. Bonds Payable (continued)

On November 1, 1999, the Authority issued the Series 1999 A Bonds, the proceeds of which amounted to $299,880,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) pay certain working capital obligations of the Government, (ii) repay the Government's outstanding 1999 tax and revenue anticipation note, (iii) fund the Series 1999 Debt Service Reserve Accounts and (iv) pay certain costs of issuing the bonds. On September 28, 2006, the Authority advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2024 and 2029 totaling $162,870,000.

The proceeds of the Series 1992 Revenue bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue bonds. At September 30, 2013, the outstanding principal of defeased Series 1989 bonds is $11,095,000.

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

Pledged Funds

The Government has pledged Gross Receipts Taxes subject to the annual moderate income housing fund deposit, as well as any prior lien or pledge, to the timely payment of the principal and interest on the Series 2013 B Notes, Series 2013 A Notes, Series 2012 C Bonds, Series 2012 A and B Bonds, Series 2011 A Notes, Series 2010 A1 and A2 Notes, the Series 2009 A 911 Notes, Series 2006 Bonds, the Series 2003 A Bonds and the Series 1999 A Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

The Government has pledged the Matching Fund Revenues, as described below, to the timely payment of principal and interest on the Series 2013 A bonds, Series 2012 A Bonds, Series 2010 A & B Bonds, Series 2009 A Bonds (Cruzan), the Series 2009 A1, A2, B & C Bonds, the Series 2009 A Bonds (Diageo), and the Series 2004 A Bonds. Thus, all amounts to be received by the Government from federal excise tax, mostly for rum, are deposited directly in a trust account from which the 2013 A, 2012 A, 2010 A & B, 2009 A Cruzan, 2009 A1, A2, B & C, 2009 A Diageo, and 2004 Bonds are paid in accordance with the Indenture of Trust.

6. Bonds Payable (continued)

Pledged Funds (continued)

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

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

Interest on Bonds

Interest on the Series 2013 A Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2013 A bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the Series 2012 C Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 C Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest on the Series 2012 A and B Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 A and B Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

6. Bonds Payable (continued)

Interest on Bonds (continued)

Interest on the Series 2012 A Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 A bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

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

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

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

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

6. Bonds Payable (continued)

Interest on Bonds (continued)

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

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

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

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

6. Bonds Payable (continued)

Interest on Bonds (continued)

Interest expense related to bonds payable during the fiscal years ended September 30, 2013 and 2012 were as follows (in thousands):

	2013	**2012**
Series 2012 C Revenue Bonds	**$ 1,266**	$ –
Series 2012 A & B Revenue and Refunding Bonds	**8,470**	–
Series 2012 A Revenue Bonds	**7,396**	–
Series 2010 A & B Revenue Bonds	**19,942**	20,021
Series 2009 A Revenue Bonds (Cruzan)	**2,201**	2,218
Series 2009 A1, A2, B, C Revenue and Refunding Bonds	**19,642**	20,819
Series 2009 A Revenue Bonds (Diageo)	**16,703**	16,703
Series 2006 Revenue Bonds	**10,122**	10,262
Series 2004 Revenue Bonds	**3,519**	3,719
Series 2003 Revenue Bonds	**12,166**	12,357
Series 1999 Bonds	**855**	4,728
	102,282	90,827
Other interest expense mainly related to loans and notes payable outstanding	**4,798**	12,101
Total	**$ 107,080**	$ 102,928

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2013 A Revenue & Refunding Bonds are as follows (in thousands):

	Series 2013 A Revenue & RefundingBonds		
October 1	**Principal**	**Interest**	**Total**
2013	$ –	$ 976	$ 976
2014	–	1,830	1,830
2015	2,210	1,775	3,985
2016	2,320	1,661	3,981
2017	7,555	1,415	8,970
2018-2022	18,015	3,335	21,350
2023-2024	5,900	310	6,210
	$ 36,000	$ 11,302	$ 47,302

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2012 C Revenue Bonds are as follows (in thousands):

	Series 2012 C Revenue Bonds		
October 1	**Principal**	**Interest**	**Total**
2013	$ –	$ 1,616	$ 1,616
2014	1,670	1,591	3,261
2015	1,720	1,540	3,260
2016	1,775	1,488	3,263
2017	1,820	1,434	3,254
2018-2022	8,870	5,968	14,838
2023-2027	2,385	4,529	6,914
2028-2032	3,680	3,820	7,500
2033-2037	5,775	2,606	8,381
2038-2042	7,420	964	8,384
	$ 35,115	$ 25,556	$ 60,671

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2012 A and B Revenue & Refunding Bonds are as follows (in thousands):

	Series 2012 A and B Revenue & Refunding Bonds		
October 1	**Principal**	**Interest**	**Total**
2013	$ 10,460	$ 4,903	$ 15,363
2014	11,445	9,375	20,820
2015	12,400	9,061	21,461
2016	12,780	8,729	21,509
2017	47,385	8,385	55,770
2018-2022	45,135	35,713	80,848
2023-2027	71,985	26,415	98,400
2028-2032	17,215	10,078	27,293
	$ 228,805	$ 112,659	$ 341,464

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2012 A Revenue Bonds are as follows (in thousands):

	Series 2012 A Revenue Bonds		
October 1	**Principal**	**Interest**	**Total**
2013	$ –	$ 3,522	$ 3,522
2014	800	10,549	11,349
2015	825	6,995	7,820
2016	850	6,962	7,812
2017	900	6,927	7,827
2018-2022	5,450	34,029	39,479
2023-2027	7,500	32,566	40,066
2028-2032	126,315	21,850	148,165
	$ 142,640	$ 123,400	$ 266,040

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2010 A and B Revenue Bonds are as follows (in thousands):

	Series 2010 A and B Revenue Bonds		
October 1	**Principal**	**Interest**	**Total**
2013	$ 2,065	$ 9,971	$ 12,036
2014	2,155	19,859	22,014
2015	2,270	19,773	22,043
2016	2,395	19,659	22,054
2017	2,520	19,540	22,060
2018-2022	35,175	96,138	131,313
2023-2027	221,015	81,770	302,785
2028-2029	129,465	24,925	154,390
	$ 397,060	$ 291,635	$ 688,695

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2009 A (Cruzan) Revenue Bonds are as follows (in thousands):

	Series 2009 A (Cruzan) Revenue Bonds		
October 1	**Principal**	**Interest**	**Total**
2013	$ 605	$ 1,100	$ 1,705
2014	640	2,171	2,811
2015	670	2,138	2,808
2016	705	2,105	2,810
2017	740	2,070	2,810
2018-2022	1,600	9,882	11,482
2023-2027	–	9,759	9,759
2028-2032	–	9,759	9,759
2033-2037	–	9,759	9,759
2038-2039	32,530	3,904	36,434
	$ 37,490	$ 52,647	$ 90,137

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2009 A1, A2, B & C Revenue & Refunding Bonds are as follows (in thousands):

	Series 2009 A1, A2, B & C Revenue & Refunding Bonds		
October 1	**Principal**	**Interest**	**Total**
2013	$ 7,015	$ 17,690	$ 24,705
2014	26,460	18,407	44,867
2015	27,955	17,112	45,067
2016	29,260	15,739	44,999
2017	30,730	14,299	45,029
2018-2022	92,550	52,495	145,045
2023-2027	106,445	29,788	136,233
2028-2032	14,705	12,252	26,957
2033-2037	–	10,781	10,781
2038-2039	43,125	4,313	47,438
	$ 378,245	$ 192,876	$ 571,121

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2009 A (Diageo) Revenue Bonds are as follows (in thousands):

	Series 2009 A (Diageo) Revenue Bonds		
October 1	**Principal**	**Interest**	**Total**
2013	$ 4,040	$ 8,351	$ 12,391
2014	4,290	16,703	20,993
2015	4,575	16,203	20,778
2016	4,890	16,203	21,093
2017	5,235	16,203	21,438
2018-2022	32,155	75,691	107,846
2023-2027	44,800	72,142	116,942
2028-2032	62,485	54,675	117,160
2033-2037	87,530	43,030	130,560
	$ 250,000	$ 319,201	$ 569,201

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2006 Revenue Bonds are as follows (in thousands):

	Series 2006 Revenue Bonds		
October 1	Principal	Interest	Total
2013	$ 2,905	$ 5,061	$ 7,966
2014	3,015	9,977	12,992
2015	3,125	9,826	12,951
2016	3,240	9,670	12,910
2017	3,360	9,508	12,868
2018-2022	56,155	43,374	99,529
2023-2027	94,300	24,364	118,664
2028-2029	42,775	2,901	45,676
	$ 208,875	$ 114,681	$ 323,556

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2004 Revenue Bonds are as follows (in thousands):

	Series 2004 Revenue Bonds		
October 1	Principal	Interest	Total
2013	$ –	$ 1,759	$ 1,759
2014	4,405	3,309	7,714
2015	4,625	3,089	7,714
2016	4,865	2,846	7,711
2017	–	2,591	2,591
2018-2022	24,545	8,627	33,172
2023-2024	14,290	1,135	15,425
	$ 52,730	$ 23,356	$ 76,086

6. Bonds Payable (continued)

Interest on Bonds (continued)

Maturity dates and debt service requirements as of September 30, 2013, for the Series 2003 A Revenue Bonds are as follows (in thousands):

	Series 2003 A Revenue Bonds		
October 1	**Principal**	**Interest**	**Total**
2013	$ 4,010	$ 6,083	$ 10,093
2014	4,210	11,966	16,176
2015	4,420	11,755	16,175
2016	4,655	11,523	16,178
2017	4,895	11,279	16,174
2018-2022	28,625	52,257	80,882
2023-2027	36,690	44,183	80,873
2028-2032	117,310	30,637	147,947
2033	36,695	1,835	38,530
	$ 241,510	$ 181,518	$ 423,028

6. Bonds Payable (continued)

Interest on Bonds (continued)

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

	Total Debt Services		
October 1	**Principal**	**Interest**	**Total**
2013	$ 31,100	$ 61,032	$ 92,132
2014	59,090	105,737	164,827
2015	64,795	99,267	164,062
2016	67,735	96,585	164,320
2017	105,140	93,651	198,791
2018-2022	348,275	417,509	765,784
2023-2027	605,310	326,961	932,271
2028-2032	513,950	170,897	684,847
2033-2037	130,000	68,011	198,011
2038-2042	83,075	9,181	92,256
	$ 2,008,470	$ 1,448,831	$ 3,457,301

The Series 2013 A Bonds are not redeemable at the option of the Authority.

The Series 2012 C Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2012 C Bonds	**Price**
October 1, 2030 and thereafter	100%

6. Bonds Payable (continued)

Interest on Bonds (continued)

The 2012 Series A & B Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2012 A & B Bonds	Price
October 1, 2032 (Series 2012 A)	100%
October 1, 2027 (Series 2012 B)	Make-Whole Redemption Price

The Series 2012 A Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

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

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

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

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

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

6. Bonds Payable (continued)

Interest on Bonds (continued)

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

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

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

Series 2009 A Bonds (Diageo)	Price
October 1, 2020 and thereafter	100%

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

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

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

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

6. Bonds Payable (continued)

Interest on Bonds (continued)

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

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

7. Conduit Debt

In November 2002, the Authority and the Government issued private activity bonds, the Refinery Facilities Revenue Bonds (HOVENSA Coker Project), the "Series 2002 Tax-Exempt Bonds", amounting to $63.8 million and $63 million ($126.8 million in total), respectively, to finance costs of construction of a coker plant for a refinery on the island of St. Croix. The bonds have an interest rate of 6.50% and are limited obligations of the Authority and the Government, payable solely from and are secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority, Government and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority's basic financial statements.

In December 2003, the Authority issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2003 Tax-Exempt Bonds", amounting to $74.2 million, to finance the costs of a Clean Fuels Program for a refinery on the island of St. Croix. The Clean Fuels Program consists of three major projects to comply with regulatory standards for low sulfur gasoline. The Clean Fuels Program is a federally mandated program effective January 2004. The bonds have an interest rate of 6.125% and are limited obligations of the Authority, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority's basic financial statements.

7. Conduit Debt (continued)

In April 2004, the Authority issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the “Series 2004 Tax-Exempt Bonds”, amounting to $50.6 million, to finance construction of a delayed coking unit for a refinery on the island of St. Croix. The bonds have an interest rate of 5.875% and are limited obligations of the Authority, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority’s basic financial statements.

In March 2007, the Authority issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the “Series 2007 Tax-Exempt Bonds”, amounting to $104.1 million, to finance modifications to diesel and gasoline desulfurization units for a refinery on the island of St. Croix. The bonds have an interest rate of 4.70% and are limited obligations of the Authority, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority’s basic financial statements.

On January 18, 2012, Hovensa, LLC, an oil refinery and major employer on the island of St. Croix, announced that it will cease operations in February 2012, due to significant operating losses. On January 25, 2012, Hovensa, LLC published an offer to repurchase the tax-exempt private activity bonds at a purchase price of $1,000 per $1,000 in aggregate principal amount, plus accrued but unpaid interest. At February 17, 2012, over 99% of the bonds were tendered leaving $230 thousand of aggregate liquidation amount outstanding.

8. Long-Term Loans and Notes

Long-term loans and notes outstanding for the fiscal years ended September 30, 2013 and 2012 follows (in thousands):

	Loans Outstanding 9/30/2012	*(In thousands)* New Issuances	Debt Payments	Loans Outstanding 9/30/2013
2013 B Notes	$ –	**$ 40,000**	**$ (40,000)**	**$ –**
2013 A Notes	–	**2,660**	**(295)**	**2,365**
2011 B Revenue Anticipation Notes	10,140	**–**	**(2,097)**	**8,043**
2011 A Notes	29,916	**–**	**(29,916)**	**–**
2010 A1 & A2 BAN	131,400	**–**	**(131,400)**	**–**
2009/2012 A TIF Notes	15,700	**–**	**(2,175)**	**13,525**
2009 A 911 Notes	4,266	**–**	**(1,639)**	**2,627**
WICO	21,764	**–**	**(525)**	**21,239**
Total	$ 213,186	**$ 42,660**	**$ (208,047)**	**$ 47,799**

	Loans Outstanding 9/30/2011	*(In thousands)* New Issuances	Debt Payments	Loans Outstanding 9/30/2012
2011 B Revenue Anticipation Notes	$ –	$ 13,000	$ (2,860)	$ 10,140
2011 A Notes	32,235	–	(2,319)	29,916
2010 A1 & A2 BAN	131,400	–	–	131,400
2009/2012 A TIF Notes	14,032	1,668	–	15,700
2009 A 911 Notes	5,819	–	(1,553)	4,266
WICO	22,258	–	(494)	21,764
Total	$ 205,744	$ 14,668	$ (7,226)	$ 213,186

8. Long-Term Loans and Notes (continued)

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

On May 14, 2013, the Authority issued the Subordinate Lien Revenue Notes, Series 2013A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $6,700,000 (the “2013A Notes”). The proceeds of the Series 2013A Notes were loaned to the Government of the Virgin Islands under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the Series 2013A Notes. Interest is assessed at 375 points above the 90-day LIBOR rate. At September 30, 2013, the Authority had drawn $2,660,000 of loan funds.

On November 14, 2011, the Authority entered into a Property Tax Revenue Anticipation Note Loan Agreement (the “2011B Revenue Anticipation Notes”). Under the terms of the Loan Agreement, the Employees’ Retirement System of the Government of the Virgin Islands will loan the Authority up to $13,000,000. The purpose of the 2011B Revenue Anticipation Notes is to provide a loan to the Government of the United States Virgin Islands to finance (i) payments made by the Government to government employees who elected to retire under the Retirement Incentive Program, (ii) expenses incurred by the Office of the Lieutenant Governor related to processing, issuing and collecting property tax bills, and (iii) loan issuance costs. The financing is provided under the 2011 Economic Stability Act enacted in July 2011 by the Government. The 2011B Revenue Anticipation Notes have a term of five years, with interest rate of 4.91% and a maturity date of December 15, 2016. After the five year term of the 2011B Revenue Anticipation Notes, the loan will convert to a term loan not to exceed two years and secured by Gross Receipts tax revenue.

8. Long-Term Loans and Notes (continued)

On April 29, 2011, the Authority entered into Subordinate Lien Revenue Bond Anticipation Notes, Series 2011A, (Virgin Islands Gross Receipts Taxes Loan Notes) in the aggregate amount of $32,235,000 (the "2011A Notes"). Interest accrued quarterly at a rate of 4.75%. The 2011A Notes reached maturity on April 12, 2012, at which time principal and accrued interest were due. On April 12, 2012, the 2011A Notes converted to a term note with principal and interest payable monthly, with an interest rate of 6.25% and maturity date of April 29, 2017. The proceeds of the 2011A Notes were loaned to the Government of the Virgin Islands for the purposes of upgrading broadband technology, infrastructure and equipment. On November 19, 2012, the 2011A Notes were repaid by proceeds of the Series 2012 B Revenue and Refunding Bond.

On November 4, 2010, the Authority entered into Subordinated Lien Revenue Bond Anticipation Notes (the "2010 A Notes"), which modified and amended the 2009 B Notes, extending the maturity date to October 1, 2013 and a maximum amount of $78,840,000 from the Agent Lender and $52,560,000 from the Syndicate Lender. On November 19, 2012, the 2010 A Notes were repaid by proceeds of the Series 2012 A Revenue and Refunding Bond.

On September 25, 2009, the Authority entered into a Bond Anticipation Note Purchase Agreement with a local bank. Under the terms of the Note Purchase Agreement, the bank will purchase up to $15,700,000 in federally taxable Bond Anticipation Notes (the "2009 A TIF Notes") issued by the Authority. The purpose of the Series 2009 A TIF Notes is to provide a loan to the Government of the United States Virgin Islands (the "Series 2009 A Tax Increment Revenue Loan Note") to finance the development of a shopping complex on the island of St. Croix. The financing is provided under Tax Increment Financing legislation enacted in October2008 by the Government. Both the 2009 A TIF Notes, and the Series 2009 Tax Increment Revenue Loan Note have a term of three years, maturing on October 1, 2012 with interest of 300 points above the J.P. Morgan Chase Prime Rate or 6.25%, whichever is higher. Under the terms of the 2009 A TIF Notes, the Authority may issue Tax Increment Revenue Bonds to defease the debt prior to that date. The proceeds were used to: i) fund a capitalized interest account, ii) pay costs of issuance, and iii) fund the first phase of the development of the shopping complex.

On September 24, 2012, the Authority authorized an extension of the maturity date on the Series 2009 A TIF Notes, from October 1, 2015 to October 1, 2017, which was then converted to the Series 2012 A term loan note (the "2012 A TIF Notes"). As of September 30, 2013, the Authority had sold $13,700,000 in 2012 A TIF Notes to the local bank, and loaned that amount to the Government of the United States Virgin Islands.

8. Long-Term Loans and Notes (continued)

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

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

WICO has pledged all its leases and revenues to secure the loans. Pursuant to the requirement of the Loan Agreements, WICO maintains restricted cash in a reserve account controlled by the Authority for the payment of principal and interest on the long-term notes. This Debt Service Reserve Fund will be equal to one year’s debt service payments. As of September 30, 2013 and 2012, as required by the Loan Agreements, the Company has funded 100% of this amount, which is presented in the statements of net position as restricted cash in the amount of $1,957,115 and $1,950,528, respectively.

Over the last three years the WICO’s operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and also by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Ports Authority. This situation is compounded by a minimum contribution in lieu of taxes of $700,000, regardless of the operating results. These situations have resulted in a deficit in working capital (current assets less current liabilities) to approximately $2.0 million and $1.6 million for the years ended September 30, 2013 and 2012, respectively. Furthermore, these situations also caused a deficit in unrestricted net assets of approximately $3.7 and $3.0 million for the years ended September 30, 2013 and 2012, respectively. During the years ended September 30, 2013, and 2012, WICO complied with the debt service reserve requirement, which requires that it set aside sufficient cash for the following year’s debt service requirements. As part of the loan agreements, no dividends may be declared and no additional equity interests may be granted during the term of the loans without the lenders approval.

8. Long-Term Loans and Notes (continued)

Pledged Funds

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

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

The Authority has pledged WICO revenues to the timely payment of principal and interest of the loan. Interest expense during the fiscal years ended September 30, 2013 and 2012 was approximately $1.35 million and approximately $1.38 million, respectively.

Future minimum payments of principal for the five years subsequent to September 30, 2013 and thereafter, are as follows:

Fiscal Year	2013 A Revenue Loan Notes	2011 Revenue Anticipation Notes	2009/2012 TIR Bond Anticipation Notes	2009 A Revenue Loan Notes	WICO	Total
2014	$ 886,667	$ 8,043,036	$ 244,588	$ 1,728,220	$ –	$ 10,902,511
2015	886,667	–	260,461	899,262	603,158	2,649,548
2016	591,110	–	275,088	–	641,635	1,507,833
2017	–	–	295,212	–	682,566	977,778
2018	–	–	–	–	19,311,967	19,311,967
Thereafter	–	–	12,449,279	–	–	12,449,279
	2,364,444	8,043,036	13,524,628	2,627,482	21,239,326	47,798,916
Less current debt	886,667	8,043,036	244,588	1,728,220	–	10,902,511
Total	$ 1,477,777	$ –	$ 13,280,040	$ 899,262	$ 21,239,326	$ 36,896,405

9. Federal Grants

On January 4, 2010, the Authority was awarded a federal grant in the amount of $1,294,854 from the United States Department of Commerce under the American Recovery and Reinvestment Act of 2009 (ARRA) for the development of a United States Virgin Islands State Broadband Data and Development/State Broadband Initiative project for a broadband mapping and planning system. On September 28, 2010, the award was increased to $3,009,506. The grant period is from January 1, 2010 through December 31, 2014. For the years ended September 30, 2013 and 2012, the Authority had $618 thousand and $60 thousand in reimbursable project expenses related to the project from the viNGN, the grant subrecipient, respectively.

On August 17, 2010, the Authority was awarded a federal grant in the amount of $58,888,469 from the United States Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the United States Virgin Islands Comprehensive Community Infrastructure project. On August 31, 2011, the Authority received communication from the United States Department of Commerce recommending the suspension of the grant, pending the completion of a Corrective Action Plan to address certain deficiencies observed in the operation and management of the grant. A Corrective Action Plan was submitted to the United States Department of Commerce on October 3, 2011, with supplemental information for the Corrective Action Plan submitted on October 10, 2011 and on October 14, 2011. On October 17, 2011, the Authority received approval of the Corrective Action Plan and lifting of the suspension. On March 29, 2013, the United States Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Oceanic and Atmospheric Administration (NOAA) approved a budget modification/rebudget which was subsequently modified with the approval of the reduction in the local match requirement from 33.29% to 20.00% and the related total program budget modification, effective August 2, 2013. On July 30, 2013, the United States Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Oceanic and Atmospheric Administration (NOAA) approved a no-cost program extension for the implementation of the Authority's $58,888,469 American Recovery and Reinvestment Act of 2009 (ARRA)-funded Comprehensive Community Infrastructure (CCI) grant award from July 31, 2013 to December 31, 2013. For the years ended September 30, 2013 and 2012, the Authority had $35.4 million and $1.5 million in reimbursable project expenses related to the project from the viNGN, the grant subrecipient, respectively. For the years ended September 30, 2013 and 2012, the Authority received $22.8 million and $7.7 million in grant reimbursements, respectively.

9. Federal Grants (continued)

On September 13, 2010, the Authority was awarded a federal grant in the amount of $2,535,082 from the United States Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the United States Virgin Islands Sustainable Broadband Adoption Program. On August 19, 2013, the United States Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Institute of Standards and Technology (NIST) approved the extension of the grant award from August 31, 2013 to September 30, 2014, effective August 20, 2013. The extension included a budget modification for viNGN, INC. d/b/a Virgin Islands Next Generation Network, a wholly-owned subsidiary and the sole subrecipient. For the years ended September 30, 2013 and 2012, the Authority had $1.5 million and $96 thousand in reimbursable project expenses related to the project from the viNGN, the grant subrecipient, respectively. For the year ended September 30, 2013, the Authority received $96 thousand in grant reimbursements.

On September 13, 2010, the Authority was awarded a federal grant in the amount of $3,021,867 from the United States Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the United States Virgin Islands Public Computer Centers project. On August 19, 2013, the United States Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Institute of Standards and Technology (NIST) approved the extension of the grant award from August 31, 2013 to September 30, 2014, effective August 20, 2013. The extension included a budget modification for viNGN, INC. d/b/a Virgin Islands Next Generation Network, a wholly-owned subsidiary and the sole subrecipient. For the years ended September 30, 2013 and 2012, the Authority had $1.5 million and $334 thousand in reimbursable project expenses related to the project from the viNGN, the grant subrecipient, respectively. For the year ended September 30, 2013, the Authority received $334 thousand in grant reimbursements.

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

9. Federal Grants (continued)

On September 30, 2011, the Virgin Islands Next Generation Network entered into a Memorandum of Agreement (MoA) with the Virgin Islands Water and Power Authority (WAPA), an autonomous instrumentality of the Government of the United States Virgin Islands. The term of the MoA is twenty-five (25) years, following execution and upon expiration of the initial twenty-five (25) years will be automatically renewed for two additional consecutive twenty-five (25) year terms unless either party provides a written notice of non-renewal to the other party not less than twelve (12) months but no sooner than twenty-four (24) months prior to the expiration of the original term of any additional term.

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

10. Commitments

Future Minimum Lease Payments

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

Future lease payments:	
2014	$ 70,000
2015	70,000
2016	26,250
Total future minimum payments	$ 166,250

11. Contingencies

The Authority has loans receivable amounting to approximately $2.0 billion from the Government (see Note 4). The principal and interest to be paid by the Government to the Authority on the loans receivable is mainly derived from excise taxes on exported rum received by the Government and gross receipts taxes, as more fully described in Note 6 and Note 8 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the Series 2013 A, Series 2012 C, Series 2012 A & B, Series 2012 A, Series 2010 A & B, Series 2009 A (Cruzan), Series 2009 A1, A2, B & C, Series 2009 A (Diageo), Series 2006, Series 2004 A, and Series 2003 Bonds, and the Series 2013 B, Series 2013 A, Series 2012 A TIF , Series 2011 B, Series 2011 A, Series 2010 A1 & A2, and Series 2009 911 A Notes.

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

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

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

11. Contingencies (continued)

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

On May 1, 2013, WICO and a former tenant (Former Tenant) executed an agreement (Settlement Agreement) in order to resolve all claims that have been asserted or could be asserted by WICO against the Former Tenant or by the Former Tenant against the WICO related to the environmental conditions on, under, or migrating from WICO's property. The Settlement Agreement required an initial payment to WICO in the amount of $2.7 million, plus an additional $250 thousand in connection with an execution of an Environmental Covenant.

Furthermore, the Settlement Agreement provides for a final payment to WICO in the amount of $250 thousand contingent to WICO's completion of certain activities that were in process at September 30, 2013. Income recognized by WICO pursuant to the provisions set forth by the Settlement Agreement amounted to $2.95 million during the year ended September 30, 2013 and is included as other non-operating revenues and expenses in the accompanying statements of revenues, expenses, and changes in net position.

The Authority is party to a Memorandum of Agreement with the Virgin Islands Department of Education to administer $5 million in funds appropriated by the Virgin Islands Legislature to be expended as follows: (i) the development of engineering specifications and plans for the Virgin Islands public schools and (ii) repairs, renovations and upgrades at specified Virgin Islands public schools. The agreement was executed on September 28, 2007. As of September 30, 2013, the Authority had made outlays from the funds, net of interest earnings, of $4.998 million.

On October 9, 2010, the Authority authorized a $45 million letter of credit facility with Banco Popular de Puerto Rico. The facility was available to replace funds from the Government of the Virgin Islands' Insurance Guaranty Fund used for retroactive wage payments to Virgin Islands government employees in October 2010. On September 9, 2013, the credit facility was cancelled.

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

11. Contingencies (continued)

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

12. Concentration of Risk

All of the matching fund revenues are derived from federal excise taxation of the sale of rum produced in the Virgin Islands. For every proof gallon of rum produced in the Virgin Islands and exported to the U.S. mainland, $10.50 is returned to the territory. In 1999, and as extended in subsequent years, the excise tax rebate was temporarily increased to $13.25 per proof gallon. In January, 2013, the extension on the rum excise tax at a rate of $13.25 per proof gallon was approved by the US Congress through December 31, 2013, and made retroactive to January 1, 2012. Rum production and exportation is by two producers (Cruzan & Diageo).

Customers representing more than 10% of total revenues for the West Indian Company during the years ended September 30, 2013 and 2012, follow:

	2013	2012
Carnival Cruise Line	**45%**	43%
Royal Caribbean Cruise Line	**29%**	37%
Norwegian Cruise Line	**15%**	–

13. Pension Plan

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

13. Pension Plan (continued)

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

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

The Government's contractually required contributions, actual contributions made, and percentage contributed to the plan for the years ended September 30, 2013, 2012, and 2011 were as follows:

	Contractually Required Contributions	**Contributions Made**	**Percentage Contributed**
2011	$167,000	$167,000	100%
2012	$ 89,307	$ 89,307	100%
2013	$106,255	$106,255	100%

The latest actuarial valuation as of September 30, 2006, indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the System on an actuarial reserve, as required by law. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained from the System's Administrator.

14. Due to Government of the United States Virgin Islands

Due to Government of the United States Virgin Islands represents funds held by the Authority on behalf of the Government for payment of construction projects and debt service payments. Due to Government of the United States Virgin Islands movement for the period ended September 30, 2013 and 2012:

	Fiscal Year 2013		Fiscal Year 2012	
	Debt Service Fund	Construction Fund	Debt Service Fund	Construction Fund
Beginning balance	**$ 105,949,289**	**$ 348,004,106**	$ 174,153,210	$ 175,608,878
Funds received for debt service	**58,258,713**	**263,129,456**	54,179,827	255,920,280
Debt service	**(367,451,193)**	**(3,232,580)**	(144,610,578)	(805,542)
Investment income	**2,449,115**	**98,472**	12,982,284	237,824
Issuance cost	**(5,938,789)**	**–**	(2,396,086)	–
Proceeds from the issuance of bonds and notes payable	**279,364,435**	**38,248,831**	17,489,211	74,246,322
Bank fees	**–**	**–**	(8,600)	(30)
Other income (loss)	**4,732**	**(19,264)**	–	(68,091)
Capital outlays (including reimbursements)	**(151,835)**	**(26,844,631)**	(334,515)	(33,544,067)
General and administrative expenses	**(45,412)**	**(150,078)**	(35,731)	(3,781,586)
Transfers to escrow for defeased bonds	**(33,558,904)**	**–**	–	–
Interfund transfers	**183,233,885**	**(153,138,555)**	20,459,199	(31,063,148)
Transfer of funds to the Government of the U.S. Virgin Islands	**(30,159,602)**	**(63,107,220)**	(2,791,796)	(55,200,659)
Transfers to rum producers	**(59,214,814)**	**(24,736,696)**	(23,137,136)	(33,546,075)
Ending balance	**$ 132,739,620**	**$ 378,251,841**	$ 105,949,289	$ 348,004,106

15. Component Unit Reporting

The component units have the same fiscal year end as the Authority. Condensed financial statements for the major component units are presented below. To obtain audited financial statements for WICO or viNGN, please contact: Virgin Islands Public Finance Authority at (340) 715-1635.

(In thousands)	Year Ended September 30, 2013			
	WICO	viNGN	KAMI	Total
Condensed information from Statement of Net Position				
Assets:				
Current assets	$ 5,466	$ 15,519	$ 1,275	$ 22,260
Noncurrent assets, excluding capital assets	51	–	–	51
Capital assets, net of depreciation	40,436	51,599	5,945	97,980
Total assets	$ 45,953	$ 67,118	$ 7,220	$ 120,291
Liabilities:				
Current liabilities	$ 8,039	$ 5,804	$ 664	$ 14,507
Long-term portion of bonds outstanding	20,672	–	–	20,672
Other liabilities	–	30,765	22	30,787
Total liabilities	$ 28,711	$ 36,569	$ 686	$ 65,966
Net position:				
Invested in capital assets, net of debt	$ 19,248	$ 30,688	$ 5,945	$ 55,881
Restricted	1,957	–	–	1,957
Unrestricted	(3,963)	(139)	589	(3,513)
Total net position	$ 17,242	$ 30,549	$ 6,534	$ 54,325
Condensed information from Statement of Revenues, Expenses and and Changes in Net Position				
Operating revenues	$ 9,112	$ –	$ 523	$ 9,635
Operating expenses	(8,470)	(6,570)	(910)	(15,950)
Operating income (loss)	642	(6,570)	(387)	(6,315)
Nonoperating income and other changes in net position	920	33,419	–	34,339
Change in net position	$ 1,562	$ 26,849	$ (387)	$ 28,024

15. Component Unit Reporting (continued)

(In thousands)	Year Ended September 30, 2012			
	WICO	viNGN	KAMI	Total
Condensed information from Statement of Net Position				
Assets:				
Current assets	$ 4,465	$ 8,300	$ 1,201	$ 13,966
Noncurrent assets	66	–	–	66
Capital assets, net of depreciation	38,451	20,625	6,426	65,502
Total assets	$ 42,982	$ 28,925	$ 7,627	$ 79,534
Liabilities:				
Current liabilities	$ 6,071	$ 1,275	$ 664	$ 8,010
Long-term portion of bonds outstanding	21,231	–	–	21,231
Other liabilities	–	23,951	41	23,992
Total liabilities	$ 27,302	$ 25,226	$ 705	$ 53,233
Net position:				
Invested in capital assets net of debt	$ 16,753	$ 6,528	$ 6,426	$ 29,707
Restricted	1,950	–	–	1,950
Unrestricted	(3,023)	(2,828)	495	(5,356)
Total net position	$ 15,680	$ 3,700	$ 6,921	$ 26,301
Condensed information from Statement of Revenues, Expenses and and Changes in Net Position				
Operating revenues	$ 8,574	$ –	$ 705	$ 9,279
Operating expenses	(7,453)	(4,751)	(929)	(13,133)
Operating income	1,121	(4,751)	(224)	(3,854)
Nonoperating (expenses) income and other changes in net position	(2,157)	9,434	1	7,278
Change in net position	$ (1,036)	$ 4,683	$ (223)	$ 3,424

15. Component Unit Reporting (continued)

(In thousands)	Year Ended September 30, 2013		
	WICO	**viNGN**	**KAMI**
Condensed Statement of Cash Flows			
Net cash provided by (used in):			
Operating activities	**$ 6,691**	**$ (522)**	**$ 49**
Capital and related financing activities	**(5,786)**	**(316)**	**–**
Investing activities	**7**	**10**	**1**
Beginning cash and cash equivalents	**3,058**	**6,160**	**1,132**
Ending cash and cash equivalents	**3,970**	**5,332**	**1,182**

	Year Ended September 30, 2012		
(In thousands)	**WICO**	**viNGN**	**KAMI**
Condensed Statement of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ 3,002	$ (4,793)	$ 111
Noncapital financing activities	40	–	–
Capital and related financing activities	(3,966)	9,450	–
Investing activities	19	53	1
Beginning cash and cash equivalents	3,963	1,450	1,020
Ending cash and cash equivalents	$ 3,058	$ 6,160	$ 1,132

16. Segment Information

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

16. Segment Information (continued)

Over the last three years, WICO's operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and also by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Port Authority. This situation is compounded by a minimum contribution in lieu of taxes of $700,000, regardless of the operating results. These situations have resulted in a deficit in working capital (current assets less current liabilities) of approximately $2.0 million and approximately $1.6 million for the years ended September 30, 2013 and 2012 respectively. Furthermore, these situations also caused a deficit in unrestricted net assets of approximately $3.7 million and approximately $3.0 million for the years ended September 30, 2013 and 2012 respectively. During the years ended September 30, 2013 and 2012, the Company complies with debt reserve requirements, which requires that it set aside sufficient cash for the following year's debt service requirements.

In October, 2013, WICO finalized an agreement to refinance the Banco Popular loan, stated at $21.2 million at the end of fiscal year 2013. The refinancing creates additional capital to complete Phase 1 projects including the extension of the Company's dock, as well as other key capital improvements.

WICO's condensed financial information is disclosed in Note 15.

17. Subsequent Events

On October 16, 2013, $20.0 million was drawn against the Series 2013B Note. The total outstanding debt on the note increased to $20.0 million.

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

17. Subsequent Events (continued)

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

Thereafter, the loan shall be repaid in fifty-nine (59) monthly installment payments of $187 thousand, with a sixtieth (60), final payment of outstanding principal.

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

On March 27, 2014, $20.0 million was drawn against the Series 2013B Note. The total outstanding debt on the note increased to $40.0 million.

Effective June 6, 2014, the United States Department of Commerce's National Telecommunications and Information Administration (NTIA) and its National Institute of Standards and Technology (NIST), provided a no-cost program extension for the implementation of the Virgin Islands Public Finance Authority's $3,009,506 American Recovery and Reinvestment Act of 2009 (ARRA)-funded State Broadband Initiative (SBI)/State Broadband Data and Development (SBDD) grant award from December 31, 2014 to January 31, 2015. NTIA and NIST offered this extension to Grant Recipients whose agreements had not yet expired. The extension provides additional time through January 31, 2015 for project activities to be completed and for the Drawdown of grant funds to be made through April 30, 2015.

17. Subsequent Events (continued)

On July 11, 2014, the Virgin Islands Public Finance Authority was notified by the U.S. Virgin Islands Office of Inspector General and the U.S. Department of Interior's Office of Inspector General that they would be initiating a joint audit of the Virgin Islands Public Finance Authority, beginning on July 21, 2014. The audit is a routine audit of the Authority as a blended component unit of the Government of the U.S. Virgin Islands, covering the fiscal years from 2010 through 2014.

Other Report

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

The Board of Directors of
The USVI Public Finance Authority

We have audited, in accordance with the 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 Virgin Islands Public Finance Authority (the Authority) as of and for the years ended September 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated August 18, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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, as described below, we identified a deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described below to be material a weakness.

2013-01 Financial Statement Close Process
of the Virgin Islands Next Generation Network (viNGN or the Company)

Criteria

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

Condition

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

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

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

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

Cause

The internal controls over the financial statement close process were not effective for fiscal year 2013.

Effect

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

Recommendations

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

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

Cause

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

Effect

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

Management's Response

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

The important difference with viNGN, INC. is that it is a start-up public corporation which was established as a subsidiary of the PFA, effective October 22, 2010, to implement four American Recovery and Reinvestment Act (ARRA)-funded grants and to manage the resulting middle mile, broadband network, as the PFA's core business operations have not included the implementation of federal grant programs or the management of any broadband networks. Most of the implementation activities began in earnest during FY2012.

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

As a start-up business unit within the PFA and subsequently as a separate legal entity, viNGN's management team maintained financial records; however, full implementation of a comprehensive financial system (i.e. the Microsoft Great Plains Dynamic system) did not begin until FY2012 after viNGN was established as a separate legal entity and after most of the implementation activities began in earnest. This financial system was selected, as it is the same system that is in operation at the PFA and is well-recognized as a credible financial system nationally.

The core accounting and financial management modules of the Microsoft Great Plains Dynamics system at viNGN, INC. are fully implemented, with the data used to complete the PFA's and viNGN's FY2011, FY2012 and FY2013 Financial Statement Audits and the OMB Circular A-133 Audits.

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

Oceanic and Atmospheric Administration (NOAA) who were also representing NIST. More detailed documentation of financial management and other grants management policies and procedures that are tailored to the BTOP grants were also developed and submitted to NTIA, NOAA and NIST on October 3, 2011 and on October 10, 2011 and during each of the above-referenced Site Visits.

Also, NTIA, NOAA and NIST staff members received and reviewed documentation of these internal control procedures with the Drawdown/Reimbursement packages that were submitted during FY2012, FY2013 and FY2014 to date and during the Site Visits noted above. The NTIA, NOAA and NIST teams have confirmed their satisfaction with the financial management system, the internal control procedures, the documentation and the staff, which is confirmed by the $55.8 million in reimbursements received through June 30, 2014 out of total grant awards of $67.3 million.

Starting with the filing of the Quarter 4, current year 2011 ARRA 1512 reports (i.e., for FY2012) and other required quarterly reports through to date, accounting adjustments having been made to ensure more accurate reporting of expenditures across approved budget line items and for allowable expenditures. This occurred initially because, during October 2011, the PFA and viNGN hired additional staff to manage and/or to oversee viNGN's operations. The new management teams at the PFA and at viNGN refined the reporting procedures for the Broadband Technology Opportunities Program (BTOP) grants with CFDA 11.557 and CFDA 11.558 and made accounting adjustments/expenditure reclassifications and corrections to some of the previously-reported information. For example, as the new management teams worked to implement the Great Plains financial management system at viNGN, INC., the team reviewed past invoices, related contracts and/or purchase orders, procurement procedures and payments made, in an effort to ensure that they met all federal grant requirements and local match funding requirements. Some accounting adjustments were required as a result of those assessments. These types of assessments continue to be made.

Responsible Sub-recipient project management, Sub-recipient financial management, Sub-recipient procurement and property management, and Prime Recipient staff members must now review invoices against underlying contracts, related purchase orders, grant project budgets and/or on-site progress assessments, depending upon their specific roles, and then process the payment thereof under the specific ARRA/BTOP grant programs to minimize the number of accounting adjustments in the future, though accounting adjustments are sometimes made in the normal course of business and have been made after fiscal year closeouts to ensure that accrued expenditures are reflected accurately, as an example.

During FY2013, there were several accounting adjustments to account for the differences between the accounting method used for grant financial reporting on a quarterly basis and the accounting method used for financial statement audit reporting purposes. The cash basis of accounting is used for grant reporting, which is allowed and was done in order to remain consistent with previously-submitted reports and to ensure timely and the most accurate federal expenditures and match expenditure reporting. Further, there were some expenses that should have been accrued. As a result, the general ledger for viNGN, INC. had to be adjusted to the accrual method for financial statement audit reporting purposes.

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

Also, the management team of the PFA is working closely with the management teams at all of its subsidiaries to ensure that its FY2014 audits are issued in full accord with the requirements of all grants, bonds and other financial agreements. Moreover, the management team at the PFA continues to work with its subsidiaries to respond to audit findings and to ensure that appropriate and timely corrective actions are taken. Evidence of this can be seen in the corrective actions implemented since FY2010 to address the FY2010, FY2011, FY2012 and FY2013 audit findings.

Compliance and Other Matters

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

The Authority's Response to Finding

The Authority's response to the finding identified in our audit was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

August 18, 2014

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