AUDITED FINANCIAL STATEMENTS

Virgin Islands Public Finance Authority
(a blended component unit of the Government of the
United States Virgin Islands)
Years Ended September 30, 2014 and 2013
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, 2014 and 2013

Contents

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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, 2014 and 2013, 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, 2014 and 2013, 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.

Adoption of GASB Statement No. 65, *Items Previously Report as Assets and Liabilities*

As described in Note 1 to the financial statements, the Virgin Islands Public Finance Authority adjusted its financial statements as a result of the adoption of Government Auditing Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilitie*s, effective October 1, 2012. Our opinion is not modified with respect to this matter.

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 June 29, 2015, 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

June 29, 2015

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, 2014, 2013, and 2012.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Under the Authority's investment and debt service fund administration, the Authority issues debt instruments (mainly bonds and notes) and loans the proceeds to the Government of the Virgin Islands under the same terms of the debt source. The proceeds from debt issuances are also managed by the Authority on behalf of the Government of the Virgin Islands. These management activities consist of investing the proceeds in permitted investments, managing the debt service reserves, making payments for capital projects for the benefit of the residents of the Virgin Islands and receiving pledged revenues for the timely payment of principal and interest. Since the Authority holds the bond proceeds, disbursements on behalf of the Government of the Virgin Islands are recorded as reductions in the amounts due to the Government of the Virgin Islands in the 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 84 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, 2014, 2013, and 2012:

(In thousands)	**2014**	2013 (Adjusted)	2012 (Adjusted)
Condensed information from Statement of Net Position			
Assets:			
Current assets	**$ 430,932**	$ 441,046	$ 427,600
Non-current assets excluding capital assets	**2,126,542**	2,117,516	2,120,224
Capital assets (net of depreciation)	**131,369**	98,644	66,178
Total assets	**2,688,843**	2,657,206	2,614,002
Deferred outflows of resources	**10,203**	11,033	10,716
Total assets and deferred outflows	**$ 2,699,046**	$ 2,668,239	$ 2,624,718
Liabilities:			
Current liabilities	**$ 134,019**	$ 107,591	$ 109,382
Long-term portion of bonds outstanding	**1,973,621**	1,979,316	1,809,699
Other liabilities	**495,580**	502,727	656,974
Total liabilities	**$ 2,603,220**	$ 2,589,634	$ 2,576,055
Net position:			
Net investment in capital assets	**$ 80,489**	$ 55,878	$ 30,318
Restricted	**26,000**	26,933	27,083
Unrestricted	**(10,663)**	(4,206)	(8,738)
Total net position	**$ 95,826**	$ 78,605	$ 48,663
Condensed information from Statement of Revenue, Expenses and Changes in Net Position			
Operating revenues	**$ 11,771**	$ 13,495	$ 11,107
Operating expenses	**(25,721)**	(20,986)	(21,474)
Operating loss	**(13,950)**	(7,491)	(10,367)
Non-operating income and other changes in net position	**31,172**	37,433	9,480
Change in net position	**$ 17,222**	$ 29,942	$ (887)

Non-current assets, excluding capital assets, increased by $9.0 million in 2014 mostly due to the issuance of the Series 2014 B Notes. 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.

The capital asset increase of $32.7 million and $32.4 million in 2014 and 2013, respectively, is mainly due to the build- out of the viNGN optical fiber network.

Long-term portion of bonds outstanding decreased by $5.7 million in 2014 mainly due to an increase in the current portion of bonds outstanding and the debt payment on the Series 2012 A & B, Series 2010 A & B, Series 2009 A (Cruzan), Series 2009 A1, A2, B & C, Series 2009 A (Diageo), Series 2006 A, Series 2004 A, and Series 2003 A bonds. 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.

The net position of the Authority increased by $17.2 million during fiscal year 2014. The increase in 2014 is mainly due to an increase in the capital assets of viNGN. 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.

In 2014, operating revenues experienced a decrease of $1.7 million, which is mainly due to a decrease in the management fees received in connection with the bonds and notes issued during the current fiscal year. 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 fiscal year.

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 2014, 2013, and 2012:

	WICO			King's Alley		
(In thousands)	**2014**	**2013**	**2012**	**2014**	**2013**	**2012**
		(Adjusted)	***(Adjusted)***			
Operating revenues	**$ 9,507**	$ 9,112	$ 8,574	**$ 588**	$ 523	$ 705
Operating expenses	**(8,861)**	(8,470)	(7,545)	**(917)**	(910)	(929)
Operating income (loss)	**646**	642	1,029	**(329)**	(387)	(224)
Nonoperating revenues	**911**	2,970	72	**–**	–	1
Nonoperating expenses	**(2,803)**	(2,034)	(2,122)	**–**	–	–
Nonoperating income (loss)	**(1,892)**	936	(2,050)	**–**	–	1
Change in net position	**$ (1,246)**	$ 1,578	$ (1,021)	**$ (329)**	$ (387)	$ (223)

WICO's operating revenues consist of agency fees charged to cruise lines and rental income. During fiscal year 2014 and 2013, the increase in operating revenues is due to increased passenger arrivals. WICO received a non-operating $2.95 million settlement with a former tenant during fiscal year 2013.

WICO secured financing for additional development of its port facilities. The Phase II projects include replacement of WICO's 60-ton bollards, with 150-ton bollards, along with the refurbishment of the bulkhead to allow the dock facility to handle larger ships securely, totaling approximately $3.75 million in November, 2014. During fiscal year 2014, WICO finalized an agreement to refinance the existing Banco Popular loan, stated at $28.5 million.

The extension of WICO's dock allows the company to accommodate larger cruise ships for the 2014/2015 cruise ship season and strengthens the integrity of the dock as a whole. The Phase I projects were completed during January, 2014. The Phase II project, includes replacement of 32 older 60-ton bollards with newer, larger 150-ton bollards, as well as replacement of 750 feet of dock bulkhead. The Long Bay Landing portion of the Phase II project, which includes plans to construct a new dock, with 2 new unrestricted berths, is being reassessed. The new dock will accommodate the larger ships, with passenger capacity of 4,000+ guests. Estimated projections determine that construction of the new dock facilities will provide at least 100 additional calls, as major cruise lines have expressed interest in the proposed berthing opportunities.

King's Alley operating loss of $329 thousand in fiscal year 2014 ($387 thousand in 2013), is mainly due to depreciation of $481 thousand in 2014 and 2013.

Grant Administration

The Office of Economic Opportunity ("OEO") 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 2014, 2013, and 2012:

	Office of Economic Opportunity		
(In thousands)	**2014**	**2013**	**2012**
Operating revenues	**$ –**	$ 2	$ –
Operating expenses	**(757)**	(595)	(961)
Operating loss	**(757)**	(593)	(961)
Nonoperating revenues – Budgetary allocation	**–**	1,386	892
Nonoperating revenues – Federal Grant Revenue	**–**	–	202
Nonoperating revenues – Interest	**4**	2	3
Change in net position	**$ (753)**	$ 795	$ 136

Operating expenses of $757 thousand and $595 thousand in fiscal years 2014 and 2013, respectively, consisted of operating and 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

Broadband Initiative – viNGN (continued)

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 2014, 2013, and 2012:

	viNGN		
(In thousands)	**2014**	**2013**	**2012**
Operating revenues	**$ 38**	$ –	$ –
Operating expenses	**(9,265)**	(6,570)	(4,751)
Operating loss	**(9,227)**	(6,570)	(4,751)
Nonoperating revenues	**4,402**	7,530	282
Special item: impairment charges	**–**	–	(364)
Gain (loss) before capital and in-kind contributions	**(4,825)**	960	(4,833)
Capital contributions from federal grants	**15,509**	23,552	9,516
In-kind contributions	**10,475**	2,337	–
Change in net position	**$ 21,159**	$ 26,849	$ 4,683

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 2014 and 2013, viNGN received capital contributions from federal grants of $15.5 million and $23.5 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 2014, 2013, and 2012, were as follows:

	Restricted Cash and Investments		
(In thousands)	**2014**	**2013**	**2012**
Investments under management	**$ 522,582**	$ 521,376	$ 523,667
Other restricted cash, cash equivalents and investments	**2,712**	1,958	1,951
	$ 525,294	$ 523,334	$ 525,618

DEBT ADMINISTRATION

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

(In thousands)	Bonds Outstanding 9/30/2012	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2013	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2014
Matching Funds Revenue Bonds	$ 1,321,925	$ 36,000	$ (30,715)	$ (33,045)	$ 1,294,165	**$ 51,365**	**$ (13,725)**	**$ (48,325)**	**$ 1,283,480**
Gross Receipts Revenue Bonds	531,170	263,920	(14,015)	(66,770)	714,305	**49,640**	**(17,375)**	**–**	**746,570**
Total	$ 1,853,095	$ 299,920	$ (44,730)	$ (99,815)	$ 2,008,470	**$ 101,005**	**$ (31,100)**	**$ (48,325)**	**$ 2,030,050**

In September 2014, the Authority issued the Series 2014 A Revenue 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 October 2013, the Authority issued the Series 2013 B Revenue and Refunding Bonds. The proceeds were used to advance refund a portion of the Series 2004 A Bonds (see Note 6).

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 A 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).

At September 30, 2014, defeased bonds outstanding from prior years amounted to $9.6 million (1989 Series).

Loans outstanding were as follows:

	(In thousands)						
	Loans Outstanding 9/30/2012	**New Issuances**	**Debt Payments**	**Loan Outstanding 9/30/2013**	**New Issuances**	**Debt Payments**	**Loan Outstanding 9/30/2014**
2014 B Notes	$ –	$ –	$ –	$ –	**$ 14,000**	**$ –**	**$ 14,000**
2013 B Notes	–	40,000	(40,000)	–	**40,000**	**(40,000)**	**–**
2013 A Notes	–	2,660.00	(295)	2,365	**2,770**	**(887)**	**4,248**
2012 A TIF Notes	15,700	–	(2,175)	13,525	**–**	**(245)**	**13,280**
2011 B Revenue Anticipation Notes	10,140	–	(2,097)	8,043	**–**	**(1,106)**	**6,937**
2011 A Broadbank BAN	29,916	–	(29,916)	–	**–**	**–**	**–**
2010 A1 and A2 Notes	131,400	–	(131,400)	–	**–**	**–**	**–**
2009 A 911 Noes	4,266	–	(1,639)	2,627	**–**	**(1,728)**	**899**
WICO	21,764	–	(525)	21,239	**7,323**	**(45)**	**28,517**
Total	$ 213,186	$ 42,660	$ (208,047)	$ 47,799	**$ 64,093**	**$ (44,011)**	**$ 67,881**

In August 2014, the Authority issued the Subordinate Lien Revenue Notes, Series 2014 B. The proceeds of the Series 2014 B Notes were loaned to the Government of the Virgin Islands to pay for certain operating costs.

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 subsequent draw on the loan amounted to $40 million and was repaid in full before September 30, 2014. 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 May 16, 2013, totaled $2.66 million. A second draw at September 12, 2014, totaled $2.77 million, for a total borrowing of $5.43 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 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.

In October, 2013, WICO finalized an agreement to refinance the existing Banco Popular loan, stated at $28.5 million, for the end of fiscal year 2014. The refinanced loan, created additional working capital of approximately $7.3 million to complete Phase I projects.

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 Notes 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)	**2014**	**2013**	**2012**
Excise rum tax	**$ 82,084**	$ 100,118	$ 97,500
Gross receipts tax	**$ 96,113**	$ 53,768	$ 54,731
Property tax	**$ 1,471**	$ 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-/Aaa-mf (Moody's) rated money market funds, A-1+ (S&P) and P-1 (Moody's) rated government securities, and, A-1 (S&P) and P-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 agreements were 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.

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.

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
St. Thomas, US Virgin Islands 00802
(340) 714-1635

Financial Statements

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

Statements of Net Position

	September 30 2014	September 30 2013 (Adjusted)
Assets		
Current assets:		
Cash and cash equivalents	**$ 17,265,118**	$ 19,412,458
Restricted cash and cash equivalents	**187,488,331**	97,641,235
Restricted investments, at fair value	**152,606,084**	242,114,123
Receivables, net	**1,701,068**	980,405
Federal grants receivable	**1,976,806**	9,876,461
Restricted loans receivable - Government of the U.S. Virgin Islands	**68,919,802**	69,992,511
Prepaid expenses and other assets	**975,124**	1,028,691
Total current assets	**430,932,333**	441,045,884
Noncurrent assets:		
Restricted investments, at fair value	**185,199,984**	183,578,775
Restricted loans receivable - Government of the U.S. Virgin Islands	**1,941,342,406**	1,933,937,079
Capital assets, net of depreciation and amortization	**131,368,553**	98,644,159
Total noncurrent assets	**2,257,910,943**	2,216,160,013
Total assets	**2,688,843,276**	2,657,205,897
Deferred Outflows of Resources		
Deferred losses on bond refundings, net	**10,203,127**	11,033,083
Total assets and deferred outflows	**$ 2,699,046,403**	$ 2,668,238,980

(Continued)

Statements of Net Position (continued)

	September 30 2014	2013 *(Adjusted)*
Liabilities		
Current liabilities:		
Accrued expenses and other liabilities	**$ 11,719,521**	$ 13,972,002
Loan payable realted to capital assets	**409,643**	–
Notes payable	**11,829,802**	10,902,511
Bonds payable	**59,090,000**	31,100,000
Interest payable	**50,969,967**	51,616,230
Total current liabilities	**134,018,933**	107,590,743
Noncurrent liabilities:		
Loans payable related to capital assets	**28,107,748**	21,239,326
Notes payable	**27,534,295**	15,657,079
Bonds payable, net of net unamortized bond premiums and discounts of $2,660,710 at September 30, 2014 and $1,946,099 at September 30, 2013	**1,973,620,710**	1,979,316,100
Due to Government of the U.S. Virgin Islands - construction funds	**172,181,526**	333,099,499
Due to Government of the U.S. Virgin Islands - debt service funds	**267,756,649**	132,731,715
Total noncurrent liabilities	**2,469,200,928**	2,482,043,719
Total liabilities	**2,603,219,861**	2,589,634,462
Net position		
Net investment in capital assets	**80,489,929**	55,877,819
Restricted	**26,000,044**	26,933,190
Unrestricted (deficit)	**(10,663,431)**	(4,206,491)
Total net position	**$ 95,826,542**	$ 78,604,518

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	
	2014	**2013**
		(Adjusted)
Operating revenues:		
Charges for services	**$ 11,609,058**	$ 13,106,161
Other operating revenues	**161,985**	388,428
Total operating revenues	**11,771,043**	13,494,589
Operating expenses:		
General and administrative	**20,593,057**	16,789,634
Depreciation	**5,128,209**	4,196,347
Total operating expenses	**25,721,266**	20,985,981
Operating loss	**(13,950,223)**	(7,491,392)
Nonoperating revenues (expenses):		
Proceeds from settlement	**–**	2,950,000
Interest income:		
Cash, cash equivalents and investments	**4,672,791**	5,625,648
Loans receivable - Government of the U.S. Virgin Islands	**104,602,327**	105,730,269
Budgetary allocation	**3,500,000**	4,885,675
Federal grants	**4,388,820**	7,520,181
Amortization of bond discount	**(3,491,521)**	(4,830,753)
Amortization of deferred losses on debt refundings	**(1,985,983)**	(1,797,155)
Bank commitment fees	**–**	(787,500)
Interest expense	**(106,705,669)**	(107,064,864)
Operating income (expenses)	**2,274**	–
Gain (loss) on sale of fixed assets	**4,600**	12,773
Other income	**900,000**	–
Contribution to the Government of the U.S. Virgin Islands	**(700,000)**	(700,000)
Total nonoperating income	**5,187,639**	11,544,274
Gain (loss) before payments on behalf of the Government of the U.S. Virgin Islands, contributions and grants	**(8,762,584)**	4,052,882
Capital contributions from Federal grants	**15,509,621**	23,552,499
In-kind contribution	**10,474,987**	2,336,731
Changes in net position, *as adjusted*	**17,222,024**	29,942,112
Total net position at beginning of year, *adjusted*	**78,604,518**	48,662,406
Total net position at end of year	**$ 95,826,542**	$ 78,604,518

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 2014	2013 *(Adjusted)*
Operating activities		
Cash received from customers	**$ 10,885,177**	$ 14,407,800
Cash paid to suppliers and employees for services	**(22,598,755)**	(12,179,610)
Cash received from settlement	**–**	3,235,396
Other cash receipts	**161,986**	26,456
Net cash (used in) provided by operating activities	**(11,551,592)**	5,490,042
Investing activities		
Purchases of investments	**(708,377,192)**	(803,032,081)
Interest received on cash, cash equivalents and investments	**131,169**	950,309
Investment maturities and sales	**799,322,665**	790,488,924
Net cash provided by (used in) investing activities	**91,076,642**	(11,592,848)
Capital and related financing activities		
Proceeds from loan issuance	**7,323,281**	–
Acquisition of property and equipment	**(27,375,342)**	(34,297,230)
Capital contribution - federal grants	**23,409,021**	13,421,147
Interest payment on long-term debt related to capital assets	**(2,098,741)**	(1,350,117)
Principal payments on loans payable related to capital assets	**(45,216)**	(509,324)
Net cash provided by (used in) capital and related financing activities	**1,213,003**	(22,735,524)
Noncapital financing activities		
Funds received for debt service	**278,234,721**	321,392,901
Contributions to Cruzan	**(40,331,730)**	(44,861,720)
Contributions to Diageo	**(39,496,768)**	(39,089,790)
Bank and other fees	**(68,176)**	(1,191,993)
Proceeds from issuance of bonds and notes payable	**50,270,101**	317,613,266
Budgetary allocation	**3,500,000**	4,885,675
Interest paid on bonds and notes payable	**(107,069,388)**	(99,866,361)
Federal grants	**4,389,075**	9,818,822
Payment of issuance costs	**(2,581,511)**	(7,500,362)
Transfer (to)/from the Government of the U.S. Virgin Islands	**(143,072,860)**	(63,107,220)
Principal payments on bonds and notes payable	**(32,591,520)**	(350,115,895)
Defeasance of 2009 A, 2009 B and 2004 A bonds	**(22,535,000)**	–
Payments on behalf of Government of the U.S. Virgin Islands	**(25,745,466)**	(33,891,815)
Transfer of funds (to)/from escrow	**84,060,225**	–
Net cash provided by noncapital financing activities	**6,961,703**	14,085,508
Net increase (decrease) in cash, cash equivalents and restricted cash	**87,699,756**	(14,752,822)
Cash, cash equivalents and restricted cash at beginning of year	**117,053,693**	131,806,515
Cash, cash equivalents and restricted cash at end of year	**$ 204,753,449**	$ 117,053,693

(Continued)

Statements of Cash Flows (continued)

	Year Ended September 30	
	2014	**2013**
		(Adjusted)
Reconciliation of operating loss to net cash used in (provided by) operating activities		
Operating loss	**$ (13,950,223)**	$ (7,491,392)
Adjustments to reconcile changes in net position to net cash (used in) provided by operating activities:		
Provision for doubtful accounts	**(21,541)**	(22,772)
Depreciation and amortization	**5,128,209**	4,196,347
Proceeds from settlement	**–**	2,950,000
Changes in operating assets and liabilities that increase (decrease) cash:		
Receivables	**(664,909)**	1,251,511
Accrued expenses and other liabilities	**(2,052,626)**	4,829,175
Prepaid expenses and other assets	**43,712**	(222,827)
Other	**(34,215)**	–
Total adjustments	**2,398,630**	12,981,434
Net cash (used in) provided by operating activities	**$ (11,551,593)**	$ 5,490,042

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. The Authority follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective October 1, 2012. Expenses are recorded when incurred and revenues are recorded when earned.

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

Summary of Significant Accounting Policies (continued)

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:

- *Net investment in capital assets:* 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 position 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 blended component unit, consisting primarily of servicing cruise ships owned by established shipping lines.

King's Alley Management, Inc.("KAMI"): Property management activities related to KAMI, a blended component unit, 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 blended component unit 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 Authority exercises control over the three blended component units. WICO and viNGN are governed by separate boards than the Authority, do not directly provide services to 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.

Deferred Outflows of Resources

Under GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the Authority reports separate sections in the Statements of Net Position for Deferred Inflows and Deferred Outflows. This separate financial statement element represents a consumption or receipt of resources that applies to a future period and therefore will not be recognized as an inflow or outflow of resources until then. The Authority includes in the Deferred Outflow of Resources reporting category the deferred charges on refunded debt resulting from the difference in the carrying value of the refunded debt and its reacquisition price.

Bonds Payable

Bonds payable managed by the Authority are as follows:

Series 2014 A Revenue Bonds: The proceeds of the bonds were issued to (i) provide a loan to the Government to fund certain operating expenses and other obligations of the Government, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2014 A Bonds.

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

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Bonds Payable (continued)

Series 2013 A Revenue and Refunding Bonds: The proceeds of the bonds were issued to (i) refund a portion of the Authority's 2004 A Bonds, 2009 A1 Bonds, and 2009 B Bonds, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2013 A 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 2012 C Bonds, and (iii) finance costs of issuance of the 2012 C 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, 2011 A Note, and 2010 A 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 2012 A Bonds.

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

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

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Bonds Payable (continued)

Series 2009 A Revenue Bonds (Diageo): The proceeds of the bonds were issued to: (i) make a loan to the Government 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 A 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 A Bonds and, (vi) fund a net payment reserve account for a new swap agreement.

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

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

Bonds Payable (continued)

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, 2014 and 2013 include payments for capital projects.

During the fiscal years ended September 30, 2014 and 2013, 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	2014	2013
2013 A Notes	**$ 216,462**	$ 2,245,266
2010 A and B Bonds	**10,473,713**	9,472,727
2009 A1, A2, B and C R&R Bonds	**1,346,982**	4,179,202
2009 A Bonds (Diageo) - Community fund	**2,676,234**	412,296
2006 Bonds	**67,113**	615,153
2004 A Bonds	**3,591,948**	4,286,675
2003 A Bonds	**905,106**	4,730,723
1998 A Bonds	**2,487,660**	–
Administrative funds	**480,248**	448,715
	22,245,466	26,390,757
Budgetary transfers and other payments on behalf of the Government of the United States Virgin Islands	**3,500,000**	7,501,058
Total payments on behalf of the Government of the United States Virgin Islands	**$ 25,745,466**	$ 33,891,815

1. Reporting Entity and Significant Accounting Policies (continued)

Significant Accounting Policies (continued)

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

During the fiscal years ended September 30, 2014 and 2013, viNGN, as a subrecipient of federal awards to the Office of Economic Opportunity, made reimbursable expenditures of $23.0 million and $39.0 million, respectively (see Note 8) and received federal grant reimbursements of $27.8 million and $23.2 million, respectively.

During the fiscal years ended September 30, 2014 and 2013, the Authority charged the Government fees amounting to $1.5 million and $3.5 million for its investment and bond management services.

During the fiscal years ended September 30, 2014 and 2013, the Authority charged $75 thousand 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. 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 as of September 30, 2014, is $5.4 million and represents payments in lieu of taxes due for the fiscal year 2006 and for the fiscal years 2008 through 2014. WICO is negotiating with the Government 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*.

Debt Refundings

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 over the remaining life of the old debt or the life of the new debt, whichever is shorter.

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

Summary of Significant Accounting Policies (continued)

Bond Discounts and Premiums

Bond discounts and premiums are amortized over the term of the related debt on a straight-line basis, which approximates the interest method. Bonds payable are reported net of the applicable bond discount or premium.

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, 2014, the Authority's operating budget of $7.6 million included $3.5 million of budgetary allocations from excess matching funds. 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 for the Office of Economic Opportunity and administrative operations, respectively.

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.

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

Summary of Significant Accounting Policies (continued)

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.

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 cashflows.

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 cashflows.

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

Summary of Significant Accounting Policies (continued)

Effect of Recent GASB Statements (continued)

GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement No. 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the GASB in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement No. 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources and limiting the use of the term deferred in financial statement presentations. At transition, the impact of GASB Statement No. 65 was as follows:

Refunding of Debt—The difference between the reacquisition price and the net carrying amount of the old debt is now required to be presented as a deferred inflow or deferred outflow of resources. The Authority reclassified the statement of net position at September 30, 2013 by $11,033,083 as a deferred outflow of resources, which had previously been reported as a deduction to the new debt.

Debt Issuance Costs—Required to be recognized as an expense in the period incurred. The net position of the Authority as of October 1, 2012, decreased by approximately $66,213 reflecting the cumulative retrospective effect of derecognizing the issuance costs which had previously been deferred in the statements of net position. In addition, the issuance cost amortization expense of the Company of approximately $15,487 in fiscal year ended September 30, 2013, included as interest expense on the statements of revenues, expenses and changes in net position, was derecognized.

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

Summary of Significant Accounting Policies (continued)

Effect of Recent GASB Statements (continued)

Future Adoption of GASB Statements

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

Statement No.	Overview	Adoption Required in Fiscal Year
72	Fair Value Measurement and Application	2016
71	Pension Transition for Contributions made Subsequent to the Measurement Date	2015
69	Government Combinations and Disposals of Government Operations	2015
68	Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27	2015

2. Cash and Cash Equivalents

Cash and cash equivalents, segregated by category at September 30, 2014 and 2013, are as follows:

	Bank Balance	Carrying Amount
2014		
Restricted	**$ 184,862,484**	**$ 187,488,331**
Unrestricted	**21,176,148**	**17,265,118**
	$ 206,038,632	**$ 204,753,449**

	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

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, 2014, $170,501,008 or 82.8% of the Authority's deposits in banks were held at Bank of New York, $35,436,366 or 17.2% were held at Banco Popular de Puerto Rico, and $100,558 or 0.05% 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, 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.

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 2014 B Notes, Series 2014 A Revenue Bonds, Series 2013 B Revenue and Refunding Bonds, Series 2013 A Revenue and Refunding Bonds, Series 2013 B Notes, Series 2013 A Notes, Series 2012 C Revenue Bonds, Series 2012 A and B Revenue and Refunding Bonds, Series 2012 A Revenue Bonds, Series 2011 B Revenue Anticipation Notes, Series 2010 A and B Revenue Bonds, Series 2009 A Bonds (Cruzan), Series 2009 A1, A2, B, and C Revenue and Refunding Bonds, Series 2012 A TIF Notes, Series 2009 A Bonds (Diageo), Series 2009 A 911 Notes, Series 2006 A Revenue Bonds, Series 2004 A Revenue Bonds, and the Series 2003 A Revenue Bonds.

Restricted investments in the reserve accounts at September 30, 2014, were as follows:

	September 30, 2014			
	Debt Service	**Construction Funds**	**Project Funds**	**Total**
Series 2014 A Revenue Bonds	**$ 170,896**	**$ –**	**$ –**	**$ 170,896**
Series 2013 B Revenue and Refunding Bonds	**6,645,434**	**–**	**–**	**6,645,434**
Series 2013 A Revenue and Refunding Bonds	**4,783,285**	**–**	**–**	**4,783,285**
Series 2012 C Revenue Bonds	**35,338**	**15,031,176**	**–**	**15,066,514**
Series 2012 A and B Revenue and Refunding Bonds	**22,263**	**–**	**–**	**22,263**
Series 2012 A Revenue Bonds	**18,336,438**	**34,440**	**–**	**18,370,878**
Series 2010 A and B Revenue Bonds	**49,677,304**	**–**	**–**	**49,677,304**
Series 2009 A Bonds (Cruzan)	**4,020,182**	**–**	**–**	**4,020,182**
Series 2009 A1, A2, B, C Revenue and Refunding Bonds	**55,431,890**	**13,035,280**	**–**	**68,467,170**
Series 2009 A Bonds (Diageo)	**35,813,670**	**–**	**–**	**35,813,670**
Series 2006 Revenue Bonds	**145**	**499,967**	**–**	**500,112**
Series 2004 A Revenue Bonds	**1**	**138,870**	**–**	**138,871**
Series 2003 A Revenue Bonds	**3,034**	**8,435,814**	**–**	**8,438,848**
Series 1999 A Revenue Bonds	**52,116,283**	**–**	**–**	**52,116,283**
Series 1998 A Revenue Bonds	**72,829,829**	**–**	**–**	**72,829,829**
Subtotal Bonds	**299,885,992**	**37,175,547**	**–**	**337,061,539**
Series 2013 A Notes	**73,891**	**–**	**206,073**	**279,964**
Series 2012 A TIF Notes	**2,789**	**–**	**–**	**2,789**
Series 2009 A 911 Notes	**461,776**	**–**	**–**	**461,776**
Subtotal Notes	**538,456**	**–**	**206,073**	**744,529**
Total Bonds and Notes	**$ 300,424,448**	**$ 37,175,547**	**$ 206,073**	**$ 337,806,068**

3. Restricted Investments (continued)

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 Revenue and Refunding Bonds	$ 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, categorized by investment type, and weighted average maturity, at September 30, 2014 and 2013, are as follows:

	2014		2013	
	Fair Value	**Weighted Average Maturity *(Years)***	**Fair Value**	**Weighted Average Maturity *(Years)***
Money Market Funds	**$ 282,607,733**		$ 370,353,398	
Portfolio investements:				
Commercial paper	**39,148,802**	**0.003**	39,148,477	0.003
Government agency notes	**16,049,533**	**0.003**	16,191,023	0.003
Total fair value	**55,198,335**	**0.003**	55,339,500	0.003
Total investments	**$ 337,806,068**		$ 425,692,898	

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, 2014, the Authority's investment in money market funds were rated AAAm by Standard & Poor's, Aaa-mf and Aaa- by Moody's Investor Service. The Authority's investments in commercial securities were rated A-1+ by Standard & Poor's and P-1 by Moody's. The Authority's investments in Federal Government instruments were rated A-1 by Standard & Poor's and P-1 by Moody's Investor Service.

3. Restricted Investments (continued)

Credit Risk (continued)

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 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, 2014, more than 5% of the Authority's investments and restricted cash were invested in: Goldman Financial Square Money Market No. 524 (56.87%), Chesham Fin LLC CDPS (11.59%), Federated Government Obligations FD#5 (11.45%), and Invesco Money Market (10.68%).

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%).

Custodial Credit Risk. The Authority does not have a custodial credit risk policy. This is the risk that the Government will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2014, 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 2014 B Revenue Notes, Series 2014 A Revenue Bonds, 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 2009 A 911 Notes, Series 2006 A Revenue Bonds, Series 2003 A Revenue Bonds, and the Series 1999 A Revenue Bonds to the Government. 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 7).

4. Restricted Loans Receivable (continued)

The Authority loaned the proceeds of the Series 2013 B Revenue and Refunding Bonds, Series 2013 A Revenue and Refunding Bonds, Series 2012 A Revenue Bonds, Series 2010 A and B Revenue Bonds, Series 2009 A Bonds (Cruzan), Series 2009 A1, A2, B and C Revenue and Refunding Bonds, Series 2009 A Bonds (Diageo), and the Series 2004 A Revenue Bonds to the Government. 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 A TIF Notes to the Government. 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 7).

The Authority loaned the proceeds of the Series 2011 B Revenue Anticipation Notes to the Government. 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 7).

On September 30, 2014, the Government advanced loan payments due on October 1, 2014. A summary of loan payments by associated bond series follows:

Bonds Series	**Payment**
2012 C Bond	$ 1,670,000
2012 A and B Bonds	11,445,000
2012 A Bond	800,000
2010 A and B Bonds	2,155,000
2009 A Bonds (Cruzan)	640,000
2009 A1, A2, B and C Bonds	26,460,000
2009 A Bonds (Diageo)	4,290,000
2006 Bonds	3,015,000
2004 A Bond	4,405,000
2003 A Bond	4,210,000
	$ 59,090,000

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 and B Bonds	$ 10,460,000
2010 A and B Bonds	2,065,000
2009 A Bonds (Cruzan)	605,000
2009 A1, A2, B and 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

5. Capital Assets

The capital assets for the fiscal years ended September 30, 2014 and 2013 follows:

	Balance 9/30/2013	Additions	Impairment/ Disposal	Transfers	Balance 9/30/2014
Land and land improvements	**$ 5,763,178**	**$ –**	**$ –**	**$ –**	**$ 5,763,178**
Buildings and building improvements	**61,374,046**	**35,957**	**–**	**8,260,647**	**69,670,650**
Personal property and equipment	**7,134,707**	**424,751**	**(138,799)**	**44,958,844**	**52,379,503**
Intangible assets	**8,117,000**	**10,474,987**	**–**	**–**	**18,591,987**
Total	**82,388,931**	**10,935,695**	**(138,799)**	**53,219,491**	**146,405,318**
Less accumulated depreciation	**(29,367,987)**	**(3,271,166)**	**15,901**	**–**	**(32,623,252)**
Less accumulated amortization	**(992,496)**	**(1,856,730)**	**–**	**–**	**(2,849,226)**
	52,028,448	**5,807,799**	**(122,898)**	**53,219,491**	**110,932,840**
Construction in progress	**46,615,711**	**27,039,493**	**–**	**(53,219,491)**	**20,435,713**
Total capital assets, net	**$ 98,644,159**	**$ 32,847,292**	**$ (122,898)**	**$ –**	**$ 131,368,553**

	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

6. Bonds Payable

A summary of bond activity for the fiscal years ended September 30, 2014 and 2013 follows (in thousands):

	Bonds Outstanding 9/30/2013	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2014
			(In thousands)		
Matching Funds Revenue Bonds	**$ 1,294,165**	**$ 51,365**	**$ (13,725)**	**$ (48,325)**	**$ 1,283,480**
Gross Receipts Revenue Bonds	**714,305**	**49,640**	**(17,375)**	**–**	**746,570**
Total	**$ 2,008,470**	**$ 101,005**	**$ (31,100)**	**$ (48,325)**	**$ 2,030,050**

	Bonds Outstanding 9/30/2012	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2013
			(In thousands)		
Matching Funds Revenue Bonds	$ 1,321,925	$ 36,000	$ (30,715)	$ (33,045)	$ 1,294,165
Gross Receipts Revenue Bonds	531,170	263,920	(14,015)	(66,770)	714,305
Total	$ 1,853,095	$ 299,920	$ (44,730)	$ (99,815)	$ 2,008,470

6. Bonds Payable (continued)

Matching Funds Revenue Bonds

A summary of Matching Funds Revenue bond activity for the fiscal years ended September 30, 2014 and 2013, follows (in thousands):

	Bonds Outstanding 9/30/2013	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2014
			(In thousands)		
Series 2013 B	**$ –**	**$ 51,365**	**$ –**	**$ –**	**$ 51,365**
Series 2013 A	**36,000**	**–**	**–**	**–**	**36,000**
Series 2012 A	**142,640**	**–**	**–**	**–**	**142,640**
Series 2010 A and B	**397,060**	**–**	**(2,065)**	**–**	**394,995**
Series 2009 A (Cruzan)	**37,490**	**–**	**(605)**	**–**	**36,885**
Series 2009 A1, A2, B and C	**378,245**	**–**	**(7,015)**	**–**	**371,230**
Series 2009 A (Diageo)	**250,000**	**–**	**(4,040)**	**–**	**245,960**
Series 2004 A	**52,730**	**–**	**–**	**(48,325)**	**4,405**
Total	**$ 1,294,165**	**$ 51,365**	**$ (13,725)**	**$ (48,325)**	**$ 1,283,480**

	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 A	142,640	–	–	–	142,640
Series 2010 A and B	399,050	–	(1,990)	–	397,060
Series 2009 A (Cruzan)	38,075	–	(585)	–	37,490
Series 2009 A1, A2, B and C	420,730	–	(24,145)	(18,340)	378,245
Series 2009 A (Diageo)	250,000	–	–	–	250,000
Series 2004 A	71,430	–	(3,995)	(14,705)	52,730
Total	$ 1,321,925	$ 36,000	$ (30,715)	$ (33,045)	$ 1,294,165

6. Bonds Payable (continued)

Bonds payable at September 30, 2014 and 2013, in which federal arbitrage regulations apply, are comprised of the following (in thousands):

	2014	2013
		(Adjusted)
Series 2013 B Revenue and Refunding Bonds		
Interest at 3.00% to 5.00%	**$ 51,365**	$ –
Series 2013 A Revenue and Refunding Bonds		
Interest at 5.00% to 5.25%	**36,000**	36,000
Series 2012 A Revenue Bonds		
Interest at 4.00% to 5.00%	**142,640**	142,640
Series 2010 A and B Revenue Bonds		
Interest at 4.00% to 5.25%	**394,995**	397,060
Series 2009 A Revenue Bonds (Cruzan)		
Interest at 3.00% to 6.00%	**36,885**	37,490
Series 2009 A1, A2, B and C Revenue and Refunding Bonds		
Interest at 3.00% to 5.00%	**371,230**	378,245
Series 2009 A Revenue Bonds (Diageo)		
Interest at 6.00% to 6.75%	**245,960**	250,000
Series 2004 A Revenue Bonds		
Interest at 4.00% to 5.25%	**4,405**	52,730
Total bonds payable	**1,283,480**	1,294,165
Less: Current portion	**(38,750)**	(13,725)
More: Unamortized bond premiums and discounts, net	**2,661**	1,946
Long-term portion of bonds payable	**$ 1,247,391**	$ 1,282,386

6. Bonds Payable (continued)

Matching Funds Revenue Bonds

On October 17, 2013, the Authority issued the Series 2013 B 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 Eighth Supplemental Indenture and the Series 2013B Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2013 B Bonds were issued to: (i) refund a portion of the Series 2004 A Bonds, (ii) fund the Series 2013 B Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2013 B Bonds. The Series 2013 B Bonds mature 2024 at an interest rate of 3.0% to 5.0%. The proceeds of the Series 2013 B Revenue and Refunding Bonds were placed in an irrevocable trust to provide for future debt service payments on the Series 2004 A. At September 30, 2014, the outstanding principal of the partial defeasance of the Series 2004 A Bonds is $58,835,000 (see the Series 2013 A Revenue and Refunding Bonds, below).

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 A Loan Notes issued by the Government. The proceeds were loaned to the Government 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. 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 deferred loss of approximately $10.9 million and an economic loss of approximately $1.5 million.

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

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. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the 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 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 and 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 2010 B Bonds were issued to: (i) refinance a portion of the outstanding Series 2009 B1 and 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%.

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

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.

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 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

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

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.

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 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.

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

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 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.

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, 2014, the outstanding principal of defeased Series 1989 bonds is $9,565,000.

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.

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Pledged Funds

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

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

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

Interest on Bonds

Interest on the Series 2013 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 2013 B Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Interest on Bonds (continued)

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 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 and 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 and 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.

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Interest on Bonds (continued)

Interest on the Series 2009 A1, A2, B and 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 and 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.

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.

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Interest on Bonds (continued)

Interest expense related to matching fund revenue bonds payable during the fiscal years ended September 30, 2014 and 2013 were as follows (in thousands):

	2014	2013
Series 2013 B Revenue and Refunding Bonds	**$ 2,307**	$ –
Series 2013 B Revenue and Refunding Bonds	**1,891**	–
Series 2012 A Revenue Bonds	**7,044**	7,396
Series 2010 A and B Revenue Bonds	**19,859**	19,942
Series 2009 A Revenue Bonds (Cruzan)	**2,171**	2,201
Series 2009 A1, A2, B, C Revenue and Refunding Bonds	**18,407**	19,642
Series 2009 A Revenue Bonds (Diageo)	**16,460**	16,703
Series 2004 A Revenue Bonds	**220**	3,519
Total	**$ 68,359**	$ 69,403

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Debt Service Requirements on Bonds

Maturity dates and debt service payment requirements as of September 30, 2014, for the Matching Funds Revenue Bonds are as follows (in thousands):

	Total Debt Services		
October 1	**Principal**	**Interest**	**Total**
2014	$ 38,750	$ 67,444	$ 106,194
2015	43,575	65,575	109,150
2016	45,670	63,690	109,360
2017	47,680	61,665	109,345
2018	50,170	59,515	109,685
2019-2023	220,910	263,795	484,705
2024-2028	416,350	189,026	605,376
2029-2033	272,415	84,107	356,522
2034-2038	72,305	50,662	122,967
2039-2043	75,655	2,054	77,709
	$ 1,283,480	$ 907,533	$ 2,191,013

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

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%

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Debt Service Requirements on Bonds (continued)

The Series 2010 A and 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 and 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%

The Series 2009 A1, A2, B and 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 and 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%

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Debt Service Requirements on Bonds (continued)

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%

Gross Receipts Revenue Bonds

A summary of Gross Receipts Revenue bond activity for the fiscal years ended September 30, 2014 and 2013 follows (in thousands):

	Bonds Outstanding 9/30/2013	**New Issuances**	**Debt Payments**	**Bonds Outstanding 9/30/2014**
		(In thousands)		
Series 2014 A	**$ –**	**$ 49,640**	**$ –**	**$ 49,640**
Series 2012 C	**35,115**	**–**	**–**	**35,115**
Series 2012 A and B	**228,805**	**–**	**(10,460)**	**218,345**
Series 2006 A	**208,875**	**–**	**(2,905)**	**205,970**
Series 2003 A	**241,510**	**–**	**(4,010)**	**237,500**
Total	**$ 714,305**	**$ 49,640**	**$ (17,375)**	**$ 746,570**

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

	Bonds Outstanding 9/30/2012	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2013
			(In thousands)		
Series 2012 C	$ –	$ 35,115	$ –	$ –	$ 35,115
Series 2012 A and B	–	228,805	–	–	228,805
Series 2006 A	211,680	–	(2,805)	–	208,875
Series 2003 A	245,325	–	(3,815)	–	241,510
Series 1999 A	74,165	–	(7,395)	(66,770)	–
Total	$ 531,170	$ 263,920	$ (14,015)	$ (66,770)	$ 714,305

Gross Receipts Revenue bonds payable at September 30, 2014 and 2013, in which federal arbitrage regulations apply are comprised of the following (in thousands):

	2014	2013 *(Adjusted)*
Series 2014 A Revenue Bonds		
Interest at 5.00%	**$ 49,640**	$ –
Series 2012 C Revenue Bonds		
Interest at 3.00% to 5.00%	**35,115**	35,115
Series 2012 A and B Revenue and Refunding Bonds		
Interest at 2.25% to 5.25%	**218,345**	228,805
Series 2006 A Revenue Bonds		
Interest at 3.50% to 5.00%	**205,970**	208,875
Series 2003 A Revenue Bonds		
Interest at 4.00% to 5.25%	**237,500**	241,510
Total bonds payable	**746,570**	714,305
Less: Current portion	**(20,340)**	(17,375)
Long-term portion of bonds payable	**$ 726,230**	$ 696,930

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

On September 5, 2014, the Authority issued the Series 2014 A Revenue Bonds, the proceeds of which amounted to $49,640,000. 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 2013 V.I. Act 7499, as amended by 2014 V.I Act 7631 as further amended by 2014 V.I. Act 7637 and approved by the Authority by resolution, (ii) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve Requirement, and (iii) pay the costs and expenses of issuing and delivering the Series 2014 A Bonds. The Series 2014 A Bonds mature from 2015 to 2034 at an interest rate of 5.0%.

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) provide a loan to the Government to be used to finance certain operating expenses and other obligations of the Government, (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. The Series 2012 C Bonds mature from 2017 to 2042 at an interest rate of 3.0% to 5.0%.

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 1999 A Bonds, (ii) refund the outstanding 2010 A1 and 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 requirement 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 requirement related to the Series 2012 B Bonds. The Series 2012 B Bonds mature in 2027 at an interest rate of 5.25%.

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

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 28, 2006 the Authority issued the Series 2006 A 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 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 A Bonds and (vi) fund a net payment reserve account for a new swap agreement. The Series 2006 A Bonds maturing on or before October 1, 2016 are not subject to optional redemption. The advance refunding of the 2024 and 2029 maturities of the 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 A 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 Series 1999A Bonds were redeemed in full in the amount of $162,870,000.

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

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 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.

On November 1, 1999, the Authority issued the Series 1999 A Revenue 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 A 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 A Bonds with maturity dates of October 1, 2024 and 2029 totaling $162,870,000. On November 20, 2012, the Authority current refunded a portion of the 1999 A Bonds with maturity dates of October 1, 2014 through October 1, 2019 totaling $66,770,000.

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 2014 B Notes, Series 2014 A Bonds, 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 A 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.

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Pledged Funds (continued)

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.

Interest on Bonds

Interest on the Series 2014 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 2014 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 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.

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

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Interest on Bonds (continued)

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 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 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.

Interest expense related to bonds payable during the fiscal years ended September 30, 2014 and 2013 were as follows (in thousands):

	2014	2013
Series 2012 C Revenue Bonds	**$ 1,616**	$ 1,266
Series 2012 A and B Revenue and Refunding Bonds	**9,527**	8,470
Series 2006 A Revenue Bonds	**9,977**	10,122
Series 2003 A Revenue Bonds	**11,966**	12,166
Series 1999 A Revenue Bonds	**–**	855
	33,086	32,879
Other interest expense mainly related to loans and notes payable outstanding	**1,664**	4,798
Total	**$ 34,750**	$ 37,677

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Debt Service Requirements on Bonds

Maturity dates and debt service payment requirements as of September 30, 2014, for the Gross Receipts Revenue Bonds are as follows (in thousands):

	Total Debt Services		
October 1	**Principal**	**Interest**	**Total**
2014	$ 20,340	$ 34,329	$ 54,669
2015	23,145	34,627	57,772
2016	24,010	33,779	57,789
2017	24,890	32,894	57,784
2018	25,650	31,858	57,508
2019-2023	151,450	140,777	292,227
2024-2028	209,745	96,751	306,496
2029-2033	251,360	39,002	290,362
2034-2038	9,900	2,397	12,297
2039-2043	6,080	636	6,716
	$ 746,570	$ 447,050	$ 1,193,620

The Series 2014 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 2014 A Bonds	Price
October 1, 2024 and thereafter	100%

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Debt Service Requirements on Bonds (continued)

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%

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

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

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Debt Service Requirements 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. Long-Term Loans and Notes

Long-term loans and notes outstanding for the fiscal years ended September 30, 2014 and 2013 follows (in thousands):

	Loans Outstanding 9/30/2013	*(In thousands)* New Issuances	Debt Payments	Loans Outstanding 9/30/2014
2014 B Notes	**$ –**	**$ 14,000**	**$ –**	**$ 14,000**
2013 B Notes	**–**	**40,000**	**(40,000)**	**–**
2013 A Notes	**2,365**	**2,770**	**(887)**	**4,248**
2011 B Revenue Anticipation Notes	**8,043**	**–**	**(1,106)**	**6,937**
2012 A TIF Notes	**13,525**	**–**	**(245)**	**13,280**
2009 A 911 Notes	**2,627**	**–**	**(1,728)**	**899**
WICO	**21,239**	**7,323**	**(45)**	**28,517**
Total	**$ 47,799**	**$ 64,093**	**$ (44,011)**	**$ 67,881**

	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 and A2 Notes	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

7. Long-Term Loans and Notes (continued)

On September 12, 2014, the Authority issued the Subordinate Lien Revenue Notes, Series 2014 B (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $14,000,000 (the "2014 B Notes"). The proceeds of the Series 2014 B Notes were loaned to the Government under the same terms, for the purposes of (i) financing general obligations of the Government, and (ii) paying certain costs of issuing the 2014 B Notes. Principal is payable in eighty-four (84) consecutive monthly principal installments commencing on November 1, 2014. Interest is assessed at 375 points above the 90-day LIBOR rate.

On August 22, 2013, the Authority issued the Subordinate Lien Revenue Anticipation Notes Series 2013 B (Virgin Islands Gross Receipts Taxes Loan Note), in the aggregate amount of $40,000,000 (the "2013 B Notes"). The purpose of the 2013 B Notes is to provide a loan to the Government to finance (i) settlement of the IRS liability related to the Series 2006 A 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 October 18, 2013, WICO finalized an agreement to refinance the existing Banco Popular loan to $28,517,391 at the effective interest rate of 6.18% per annum. The loan has an interest only repayment period of twelve months from issue date. Additionally, the payments are based on a 25-year amortization, with a final maturity in six (6) years. The final loan payment is a balloon payment of the outstanding principal balance, plus unpaid interest accrued and fees to the date of final payment. WICO's intent is to refinance the remaining outstanding debt prior to maturity of the note.

On October 16, 2013 and March 27, 2014, the Authority made a draws against the Series 2013 B Revenue Anticipation Note amounting to $20,000,000 and $20,000,000, respectively. The proceeds of the draws were used to: (i) finance certain operating expenses and other financial obligations of the Government, and (ii) pay loan issuance costs. The 2013B Note has a maturity date of September 30, 2014, and has a 6.0% interest rate. On September 30, 2014, $40,000,000 of principal was repaid to the lender.

7. Long-Term Loans and Notes (continued)

On May 14, 2013, the Authority issued the Subordinate Lien Revenue Notes, Series 2013 A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $6,700,000 (the "2013 A Notes"). The proceeds of the Series 2013 A Notes were loaned to the Government 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 2013 A Notes. Principal and interest are paid in monthly installments following each respective draw and continuing thereafter for thirty-five (35) consecutive monthly principal installments. Interest is assessed at 375 points above the 90-day LIBOR rate. At September 30, 2014, the Authority had drawn $5.43 million of loan funds and repaid $1.18 million.

On November 14, 2011, the Authority entered into a Property Tax Revenue Anticipation Note Loan Agreement (the "2011 B Revenue Anticipation Notes"). Under the terms of the Loan Agreement, the Employees' Retirement System of the Government will loan the Authority up to $13,000,000. The purpose of the 2011 B Revenue Anticipation Notes is secured by Property Tax revenue up to and including tax year 2005 to provide a loan to the Government 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 2011 B 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 2011 B Revenue Anticipation Notes, the loan will convert to a term loan not to exceed two years and secured by Gross Receipts tax revenue.

On April 29, 2011, the Authority entered into Subordinate Lien Revenue Bond Anticipation Notes, Series 2011 A, (Virgin Islands Gross Receipts Taxes Loan Notes) in the aggregate amount of $32,235,000 (the "2011 A 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 2011 A 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 2011 A Notes were loaned to the Government for the purposes of upgrading broadband technology, infrastructure and equipment. On November 19, 2012, the 2011 A Notes were repaid by proceeds of the Series 2012 B Revenue and Refunding Bond.

7. Long-Term Loans and Notes (continued)

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 (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 October 2008 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"). The Authority sold $13,700,000 in 2012 A TIF Notes to the local bank, and loaned that amount to the Government.

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 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.

7. Long-Term Loans and Notes (continued)

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 at an effective interest rate of 6.20% per annum. 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 loan. Pursuant to the provisions set forth by the Loan Agreement, WICO maintains restricted cash in a debt service reserve account controlled by the Authority, and a debt service coverage ratio account, controlled by WICO, for the payment of principal and interest equal to a one year debt service requirement. As of September 30, 2014 and 2013, the Company has funded 100% of this amount, which is presented in the statements of net position as restricted cash in the amount of $2,712,350 and $1,957,115, 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) of approximately $1.2 million and $2.0 million for the years ended September 30, 2014 and 2013, respectively. Furthermore, these situations also caused a deficit in unrestricted net assets of approximately $3.4 million and $4.0 million for the years ended September 30, 2014 and 2013, respectively. During the years ended September 30, 2014 and 2013, 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.

7. 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 2011 B 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 2012 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 year ended September 30, 2014 was $2,103,342.

Future minimum payments of principal for the five years subsequent to September 30, 2014 and thereafter, are as follows:

Fiscal Year	2014 B Revenue Loan Note	2013 A Revenue Loan Note	2011 B Revenue Anticipation Note	2012 TIF Bond Anticipation Note	2009 A Revenue Loan Note	WICO	Total
2015	$ 2,000,000	$ 1,733,062	$ 6,937,017	$ 260,461	$ 899,262	$ 409,643	$ 12,239,445
2016	2,000,000	1,810,114	–	275,088	–	520,172	4,605,374
2017	2,000,000	704,602	–	295,212	–	553,246	3,553,060
2018	2,000,000	–	–	12,449,279	–	588,422	15,037,701
2019	2,000,000	–	–	–	–	625,834	2,625,834
Thereafter	4,000,000	–	–	–	–	25,820,074	29,820,074
	14,000,000	4,247,778	6,937,017	13,280,040	899,262	28,517,391	67,881,488
Less current debt	2,000,000	1,733,062	6,937,017	260,461	899,262	409,643	12,239,445
Total	$ 12,000,000	$ 2,514,716	$ –	$ 13,019,579	$ –	$ 28,107,748	$ 55,642,043

8. 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 Initiative ("SBI")/State Broadband Data and Development ("SBDD") project for a broadband mapping and planning system. On September 28, 2010, the award was increased to $3,009,506. The grant period was from January 1, 2010 through December 31, 2014. 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 SBI/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. For the years ended September 30, 2014 and 2013, the Authority had $32 thousand and $618 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

8. Federal Grants (continued)

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 fiscal year ended September 30, 2014 and 2013, the Authority received $25.0 million and $22.8 million in grant reimbursements transferred to viNGN, the grant subrecipient, less bank fees, respectively. For the years ended September 30, 2014 and 2013, the Authority had $21.7 million and $35.4 million in reimbursable project expenses related to the project from the viNGN, the grant subrecipient, respectively.

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 fiscal year ended September 30, 2014 and 2013, the Authority received $1.7 million and $96 thousand in grant reimbursements transferred to viNGN, the grant subrecipient, less bank fees, respectively. For the years ended September 30, 2014 and 2013, the Authority had $575 thousand and $1.5 million in reimbursable project expenses related to the project from the viNGN, the grant subrecipient, respectively.

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

8. Federal Grants (continued)

subsidiary and the sole subrecipient. For the fiscal year ended September 30, 2014 and 2013, the Authority received $1.1 million and $334 thousand in grant reimbursements transferred to viNGN, the grant subrecipient, less bank fees, respectively. For the years ended September 30, 2014 and 2013, the Authority had $649 thousand and $1.5 million in reimbursable project expenses related to the project from the viNGN, the grant subrecipient, respectively.

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. 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 provided 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.

9. 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 fiscal years are as follows:

Future lease payments:		
2015	$	70,000
2016		26,250
Total future minimum payments	$	96,250

10. Contingencies

The Authority has loans receivable amounting to approximately $2.01 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 7 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the Series 2014 A, Series 2013 B, Series 2013 A, Series 2012 C, Series 2012 A and B, Series 2012 A, Series 2010 A and B, Series 2009 A (Cruzan), Series 2009 A1, A2, B and C, Series 2009 A (Diageo), Series 2006 A, Series 2004 A, and Series 2003 A Bonds, and the Series 2014 B, Series 2013 B, Series 2013 A, Series 2012 A TIF, Series 2011 B, Series 2011 A, 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 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.

10. Contingencies (continued)

On September 10, 2014, the Authority received the fiscal year 2015 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. The extended rate of $13.25 per proof gallon expired on December 31, 2013 and was extended to December 31, 2014 on December 16, 2014 (see Note 16).

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, covering the fiscal years from 2010 through 2014.

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 fulfilled in March, 2014. 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.

10. Contingencies (continued)

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, 2014, 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 Government employees in October 2010. On September 9, 2013, the credit facility was cancelled.

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.

11. 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, 2014 and 2013 are as follows:

	2014	**2013**
Carnival Cruise Line	**42%**	45%
Royal Caribbean Cruise Line	**29%**	29%
Norwegian Cruise Line	**21%**	15%

12. 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 that was created by Act No. 479, approved on June 24, 1959. The System became operative on October 1, 1959, at which date contributions by employees and the Government commenced. Substantially all full-time employees of the Government and its related agencies are covered by the System.

The System provides for retirement, death and disability benefits for employees and their dependents. The administrator of the System is responsible for its proper operation, subject to orders, resolutions and directives of a Board of Trustees. The Governor of the 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, 2014, 2013, and 2012 were as follows:

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2012	$ 89,307	$ 89,307	100%
2013	$ 106,255	$ 106,255	100%
2014	$ 102,840	$ 102,840	100%

12. Pension Plan (continued)

The latest actuarial valuation as of October 1, 2013, 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.

13. 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 fiscal years ended September 30, 2014 and 2013, follows:

	Fiscal Year 2014		Fiscal Year 2013	
	Debt Service Fund	**Construction Fund**	**Debt Service Fund**	**Construction Fund**
Beginning balance	**$ 132,731,717**	**$ 333,099,499**	$ 105,949,291	$ 348,004,106
Funds received for debt service	**52,047,885**	**165,249,343**	58,258,713	263,129,456
Debt service	**(164,041,482)**	**–**	(367,459,098)	(43,499,247)
Debt service - refunded amounts	**(5,739,419)**	**–**	–	–
Investment income (loss)	**2,375,242**	**74,615**	2,449,113	98,472
Issuance cost	**(2,550,013)**	**(63,175)**	(5,938,789)	–
Proceeds from the issuance of bonds and notes payable	**7,611,727**	**42,690,147**	279,364,435	38,248,831
Bank fees	**–**	**(144)**	–	–
Other income (loss)	**2,366**	**(9,855)**	4,732	(19,264)
Capital outlays (including reimbursements)	**(480,249)**	**(21,765,218)**	(151,835)	(26,844,631)
General and administrative expenses	**(68,144)**	**–**	(45,412)	(5,035,753)
Transfers to escrow for defeased bonds	**93,622**	**–**	(33,558,904)	–
Interfund transfers	**321,157,425**	**(194,300,473)**	183,233,885	(153,138,555)
Transfer of funds to the Government of the U.S. Virgin Islands	**(142,076)**	**(145,560,520)**	(30,159,602)	(63,107,220)
Transfers to rum producers	**(75,241,952)**	**(7,232,693)**	(59,214,814)	(24,736,696)
Ending balance	**$ 267,756,649**	**$ 172,181,526**	$ 132,731,715	$ 333,099,499

14. Blended 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.

	Year Ended September 30, 2014			
(In thousands)	**WICO**	**viNGN**	**KAMI**	**Total**
Condensed information from Statement of Net Position				
Assets:				
Current assets	**$ 6,255**	**$ 7,516**	**$ 1,407**	**$ 15,178**
Capital assets, net of depreciation	**44,275**	**80,978**	**5,464**	**130,717**
Total assets	**$ 50,530**	**$ 88,494**	**$ 6,871**	**$ 145,895**
Liabilities:				
Current liabilities	**$ 6,519**	**$ 5,063**	**$ 654**	**$ 12,236**
Long-term portion of bonds outstanding	**28,066**	**–**	**–**	**28,066**
Other liabilities	**–**	**31,722**	**12**	**31,734**
Total liabilities	**$ 34,585**	**$ 36,785**	**$ 666**	**$ 72,036**
Net position:				
Net investment in capital assets	**$ 15,758**	**$ 59,233**	**$ 5,464**	**$ 80,455**
Restricted	**2,712**	**–**	**–**	**2,712**
Unrestricted	**(2,525)**	**(7,524)**	**741**	**(9,308)**
Total net position	**$ 15,945**	**$ 51,709**	**$ 6,205**	**$ 73,859**
Condensed information from Statement of Revenues, Expenses and and Changes in Net Position				
Operating revenues	**$ 9,507**	**$ 38**	**$ 588**	**$ 10,133**
Operating expenses	**(6,854)**	**(6,637)**	**(436)**	**(13,927)**
Depreciation and amortization	**(2,007)**	**(2,627)**	**(481)**	**(5,115)**
Operating income (loss)	**646**	**(9,226)**	**(329)**	**(8,909)**
Nonoperating (expenses) income and other changes in net position	**(1,892)**	**30,386**	**–**	**28,494**
Change in net position	**(1,246)**	**21,160**	**(329)**	**19,585**
Beginning net position	**17191**	**30549**	**6534**	**54274**
Engind net position	**$ 15,945**	**$ 51,709**	**$ 6,205**	**$ 73,859**

14. Blended Component Unit Reporting (continued)

(In thousands)	Year Ended September 30, 2013 WICO *(Restated)*	viNGN	KAMI	Total
Condensed information from Statement of Net Position				
Assets:				
Current assets	$ 5,466	$ 15,519	$ 1,275	$ 22,260
Capital assets, net of depreciation	40,436	51,599	5,945	97,980
Total assets	$ 45,902	$ 67,118	$ 7,220	$ 120,240
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:				
Net investment in capital assets	$ 19,197	$ 30,688	$ 5,945	$ 55,830
Restricted	1,957	–	–	1,957
Unrestricted	(3,963)	(139)	589	(3,513)
Total net position	$ 17,191	$ 30,549	$ 6,534	$ 54,274
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	642	(6,570)	(387)	(6,315)
Nonoperating income and other changes in net position	936	33,419	–	34,355
Change in net position	1,578	26,849	(387)	28,040
Beginning net position	15,613	3,700	6,921	26,234
Engind net position	$ 17,191	$ 30,549	$ 6,534	$ 54,274

14. Component Unit Reporting (continued)

(In thousands)	Year Ended September 30, 2014 WICO	viNGN	KAMI
Condensed Statement of Cash Flows			
Net cash provided by (used in):			
Operating activities	**$ 701**	**$ (7,268)**	**$ 140**
Noncapital financing activities	**–**	**4,389**	**–**
Capital and related financing activities	**(666)**	**2,837**	**–**
Investing activities	**6**	**10**	**–**
	41	**(32)**	**140**
Beginning cash and cash equivalents	**3,970**	**5,332**	**1,182**
Ending cash and cash equivalents	**$ 4,011**	**$ 5,300**	**$ 1,322**

(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
	912	(828)	50
Beginning cash and cash equivalents	3,058	6,160	1,132
Ending cash and cash equivalents	$ 3,970	$ 5,332	$ 1,182

15. 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 a 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.

Over the last three years the WICO's operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and also by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Ports Authority. This situation is compounded by a minimum contribution in lieu of taxes of $700,000, regardless of the operating results. These situations have resulted in a deficit in working capital (current assets less current liabilities) of approximately $1.2 million and $2.0 million for the years ended September 30, 2014 and 2013, respectively. Furthermore, these situations also caused a deficit in unrestricted net assets of approximately $3.4 million and $4.0 million for the years ended September 30, 2014 and 2013, respectively. During the years ended September 30, 2014 and 2013, 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.

16. Subsequent Events

On October 1, 2014, the Authority called and refunded the 2004 A Revenue Bonds with maturity dates of October 1, 2015 through 2024, amounting to $58,835,000.

On October 15, 2014, the Authority approved a loan increase not to exceed $13 million for WICO, of which it is a 100% shareholder, with a local lender and an increase in the loan guaranty to include the principal borrowed. The funds will be used for WICO's second phase of its cruise ship dock renovations.

16. Subsequent Events (continued)

On November 12, 2014, WICO finalized an interim financing agreement to procure a loan payable to Banco Popular de Puerto Rico. The agreement provides for Banco Popular de Puerto Rico to extend a loan to WICO in the amount of approximately of $3,750,000 bearing interest at 6.75% per annum. The loan has an interest-only repayment period of twelve (12) months from issue date. Additionally, the payments are based on a 25-year amortization, with a final maturity in six (6) years. The interim financing provides additional funding to initiate Phase II WICO pier construction projects.

On November 14, 2014, the Authority issued the Series 2014 C Revenue and Refunding Bonds, the proceeds of which amounted to $247,050,000. 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 2014 C Bonds were issued to (i) refund the outstanding Series 2003 A Bonds, (ii) finance all or a portion of the costs of certain capital projects, including the Paul E. Joseph Stadium Project and certain projects at the Governor Juan F. Luis Hospital & Medical Center and Roy Lester Schneider Regional Medical Center, and (iii) pay the costs of issuance related to the Series 2014 C Bonds. The Series 2014 C Bonds mature from 2015 to 2044 at an interest rate of 5.00% to 4.50%.

On December 1, 2014, the Authority received $730,000 in funds from the Department of Tourism of the Government to establish a Standby Line of Credit on behalf of Delta Airlines.

On December 3, 2014, the Authority issued the Series 2014 D Revenue Bonds, the proceeds of which amounted to $5,765,000. 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 2014 D Bonds were issued to (i) finance certain costs associated with the Broadband Expansion Program, (ii) finance the amount necessary to meet the Debt Service Reserve Requirement of the Series 2014 D Bonds, and (iii) pay the costs of issuance related to the Series 2014 D Bonds. The Series 2014 D Bonds mature in 2033 at an interest rate of 6.03%.

16. Subsequent Events (continued)

On December 4, 2014, the Authority issued the Subordinate Lien Revenue Anticipation Notes Series 2014 E (Virgin Islands Gross Receipts Taxes Loan Note), in the aggregate amount of $40,000,000 (the "2014 E Notes"). The purpose of the 2014 E Notes is to provide a loan to the Government to (i) provide funds for any purpose for which the Government is authorized to use and expend monies, including but not limited to current expenses, capital expenditures, and discharge of any obligations of the Government, and (ii) pay the costs of issuance of the Series 2014 E Notes. On December 18, 2014, $20,000,000 of principal was drawn against the loan.

On December 16, 2014, the rum excise tax at a rate of $13.25 per proof gallon was extended through December 31, 2014, and made retroactive to January 1, 2014.

In January 2015, NTIA, the U.S. Office of Management and Budget, and NOAA approved a no-cost close-out extension of the Office of Economic Opportunity's CCI, PCC, and SBA grants through March 31, 2015. For the CCI grant, this provided additional time through March 31, 2015 to complete all network connections and network testing activities. The extension also provided additional time to complete the project by allowing reimbursement requests through March 31, 2015.

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 year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 29, 2015.

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.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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 under *Government Auditing Standards*.

Purpose of this Report

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

Ernst & Young LLP

June 29, 2015

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