AUDITED FINANCIAL STATEMENTS

The West Indian Company Limited
(A Component Unit of the Virgin Islands Public Finance Authority)
Years Ended September 30, 2017 and 2016
With Report of Independent Auditors

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(A Component Unit of the Virgin Islands Public Finance Authority)

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Years Ended September 30, 2017 and 2016

Contents

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Report of Independent Auditors

The Board of Directors
The West Indian Company Limited

Report on the Financial Statements

We have audited the accompanying financial statements of The West Indian Company Limited (the Company), a component unit of the Virgin Islands Public Finance Authority, as of and for the years ended September 30, 2017 and 2016, 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 report 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The West Indian Company Limited as of September 30, 2017 and 2016, 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.

Emphasis of a Matter

As more fully discussed in Note 11, the Company owes the Government of the US Virgin Islands approximately $7.35 million in payments in lieu of taxes (PILOT) and it is in a negative working capital position. The Government currently faces significant fiscal, economic and liquidity challenges, mainly as a result of the increasing governmental deficit position and high levels of debt and pension obligations. The Company's ability to repay its obligations and finance its operations is highly dependent on the resolution of the PILOT liability with the Government. There are no assurances that the Company's plans will be sufficient to avoid defaulting on its debts to the Government and others. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the 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.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2019, on our consideration of the Company'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

September 10, 2019

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Management's Discussion and Analysis

Years Ended September 30, 2017, 2016 and 2015

The Management and Board of Directors of The West Indian Company Limited (the Company) are pleased to present the following discussion and analysis of the Company's financial performance for the years ended September 30, 2017, 2016 and 2015.

This information should be read in conjunction with the Company's financial statements, which begin on page 12.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Company's basic financial statements. The Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position, and the Notes to Financial Statements presented on pages 12 through 29 provide information about the activities of the Company.

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

NEW ACCOUNTING STANDARDS ADOPTED

There were no new accounting standards adopted for the fiscal year ended September 30, 2017.

FINANCIAL HIGHLIGHTS

Total assets of the Company amounted to $56 million, $52.7 million, and $52.9 million at September 30, 2017, 2016 and 2015, respectively, of which $48.2 million, $44.6 million and $44.1 million were capital assets in 2017, 2016 and 2015, respectively. The increase in the Company's total assets is mainly driven by a $3.6 million increase in capital assets and the recognition of insurance receivable of $1.9 million. Total liabilities amounted to $50.5 million at September 30, 2017 of which $42.6 million were for loans outstanding and $7.9 million for other liabilities. The increase in the total liabilities during 2017 is mainly driven by a $10.5 million increase in loans payable. Total liabilities amounted to $41.9 million at September 30, 2016 of which $32.2 million were for loans outstanding and $9.7 million for other liabilities. Total assets of the Company exceeded its total liabilities as of September 30, 2017, 2016 and 2015 by $5.5 million, $10.8 million and $14.1 million (net position), respectively.

The Company's net position decreased by approximately $5.2 million or 49% during the fiscal year ended September 30, 2017 and decreased by approximately $3.3 million or 23% during the fiscal year ended September 30, 2016.

Analysis of Overall Financial Position and Results of Operations

Following is condensed financial information of the Company for years 2017, 2016 and 2015:

Condensed Summary of Net Position	**2017**	**2016**	**2015**
Assets			
Current and other assets	$ 7,882,027	$ 8,082,799	$ 8,803,984
Capital assets	48,209,040	44,604,954	44,099,020
Total assets	56,091,067	52,687,753	52,903,004
Liabilities			
Long-term debt outstanding less current portion	42,080,357	31,472,331	31,307,906
Other liabilities	8,517,755	10,462,568	7,476,866
Total liabilities	50,598,112	41,934,899	38,784,772
Net position			
Invested in capital assets	5,542,906	12,423,891	12,221,550
Restricted for debt service	2,533,776	2,973,816	2,466,925
Unrestricted (deficit)	(2,583,727)	(4,644,853)	(570,244)
Total net position	$ 5,492,955	$ 10,752,854	$ 14,118,231

Condensed Summary of Changes in Net Position	2017	2016	2015
Operating revenues	$ 8,817,860	$ 9,144,013	$ 9,501,800
Operating expenses	(11,267,444)	(9,924,319)	(9,800,224)
Operating income	(2,449,584)	(780,306)	(298,424)
Non-operating revenues	156,844	142,083	1,235,987
Non-operating expenses	(2,967,159)	(2,727,154)	(2,764,581)
Changes in net position	(5,259,899)	(3,365,377)	(1,827,018)
Net Position			
Beginning of year	10,752,854	14,118,231	15,945,249
End of year	$ 5,492,955	$ 10,752,854	$ 14,118,231

The West Indian Company Limited (the Company) generates most of its revenue from the operation of a cruise ship port on the island of St. Thomas in the U.S. Virgin Islands. The Company also rents land and warehouses and receives management fees for the administration and oversight of Havensight Mall, located at the port and owned by the Government Employees' Retirement System since 1993.

Most of the Company's revenue is generated from the cruise ship port. From an overall industry standpoint, St. Thomas continues to be a key component of the Eastern Caribbean itinerary for major cruise lines. Over the past 10 years WICO hosted an average of 1.25 million cruise ship passengers per year.

In September 2017, the U.S. Virgin Islands was struck by two category 5 hurricanes. As a result, there was only one cruise ship arrival in September 2017, and no cruise ship arrivals in October 2017. On November 3, 2017, cruise ship traffic resumed on a reduced schedule. During the 2017/2018 cruise season calls by cruise ships dropped by approximately 28 percent and the volume of visiting passengers was reduced by 36.6 percent.

For the fiscal year ended September 30, 2016, the Company had experienced a seven percent drop in cruise ship passengers. Management notes this is due to changing dockage requirements of larger cruise ships, and increased competition from other cruise ports. The Company addressed these factors by improving its dockage, replacing 32 older 60-ton bollards with 150-ton bollards and replacing 750 feet of dock bulkhead, in a project that began in May of 2016 and completed in July 2017. The Company is assessing a project of constructing a new dock to accommodate larger 5,000+ passenger ships. Estimated projections determine that construction of the new dock facilities will provide at least 100 additional calls, given that major cruise lines have expressed interest in the proposed berthing opportunities.

As a result of expressed interest by major cruise lines, in additional and preferential berthing arrangements; effective October 1, 2016, the Company entered into agreements for preferential berthing rights with three major cruise lines, providing the Company with guaranteed annual revenue.

The Company continues to operate with an approved Facility Security Plan and meets any additional requirements contained in the Title 33 CFR Part 105 of the Maritime Security Code of Federal Regulations.

The Company receives a management fee computed at 6% of Havensight Mall gross receipts for the five-year period ending September 28, 2019. Management fees amounted to $377,665, $367,381 and $396,999 in fiscal years 2017, 2016 and 2015 respectively.

CAPITAL ASSETS

Following is a schedule of the capital assets of the Company as of September 30, 2017, 2016 and 2015:

	2017	2016	2015
Non depreciable assets			
Land	$ 5,147,278	$ 5,147,278	$ 5,147,278
Construction in progress	1,917,312	5,076,718	1,866,490
Depreciable assets			
Personal property and equipment	4,734,769	4,445,538	4,116,880
Buildings and building improvements	71,153,154	61,771,240	61,767,245
	82,952,513	76,440,774	72,897,893
Less accumulated depreciation	(34,743,473)	(31,835,820)	(28,798,873)
Total capital assets, net	$ 48,209,040	$ 44,604,954	$ 44,099,020

The Company has invested in the construction of dock improvements amounting to $8.1 million, $3.2 million and $2.4 million in fiscal years ended September 30, 2017, 2016 and 2015.

In fiscal year 2017, the Company reported $1.9 million in building damage, and $55 thousand in equipment damage due to destruction caused by two Category 5 hurricanes in September 2017. The Company submitted an insurance claim for the replacement cost of the damaged assets amounting to $3.48 million, of which $2.48 million was received after the policy deductible of $1.0 million.

LONG-TERM DEBT

In October 2013, the Company finalized an agreement to refinance an existing Banco Popular loan, stated at $28.5 million, creating additional working capital of approximately $7.3 million to complete dock improvement projects. In November 2014, the Company obtained a commercial term loan in the amount of $3.75 million for the installation of 150-ton bollards required by Coastal Zone Management (CZM) permits.

In March 2016, the Company secured a non-revolving line of credit of $11.6 million with Banco Popular to finance dock improvement projects. The terms of the line of credit required interest only payments for the first year, to be consolidated with other Banco Popular loans at the end of that period. The Company extended the term and in July 2017 consolidated its loans with Banco Popular in the amount of $42.7 million at a fixed interest rate of 5.25% with a 25-year amortization period and a five-year term.

During the years ended September 30, 2017 and 2016, the Company did not comply with certain debt service coverage and debt service reserve requirements, requiring the Company to meet debt service coverage targets and maintain sufficient cash for one year's debt service requirements. This is not considered an event of default under the loan agreement. The company was given an exemption from this requirement for the year ended September 30, 2017 and was authorized by Banco Popular to use funds in the debt service reserve to pay the closing costs of the Consolidated Loan. The required debt service fund amount of $3 million must be reinstated within one year of the closing.

OTHER LIABILITIES

The Company is in a negative working capital position as of September 30, 2017, mainly due to the outstanding liability of payments in lieu of taxes (PILOT), amounting to $7.35 million, due to the Government of the Virgin Islands. With the passage of Act 8053 authorizing the Virgin Islands Government to purchase the historic property located at Estate Catherineberg, the PILOT balance will be reduced by the value of the Estate Catherineberg property.

FINANCIAL CONDITION

WICO continues to explore several means of maximizing the Company's financial future by concentrating on growing the passenger arrivals, developing the 7-acre property located in Estate Liverpool and renovation and reconstruction of warehouse rentals to attract new and varied purveyors of products and services to appeal to our visitors and residents.

The Company is poised to accept larger ships, due to planned dredging of the harbor, which will offer an opportunity to increase passenger capacity. Significant headway has been made between WICO, the Virgin Islands Port Authority (VIPA) and the Department of Tourism under the umbrella of "The Ports of the Virgin Islands" along with the other partners, including the Office of the Governor and members of the private sector to increase demand for the destination, improve the visitor experience, and grow passenger spending – all to restore the U.S. Virgin Islands as a sought-after marquee destination. This is already evident from the 5 maiden calls made to St.

Thomas by the new ships sailing our Eastern Caribbean waters in 2018.

The team at The West Indian Company Limited is finalizing our plans for the development of two additional berths, reviewing opportunities for fresh new attractions and activities to the destination and preparing for the renovation of Estate Catherineberg into a museum pursuant to Act No.8053. The conversion of Catherineberg will allow the Company to satisfy a large portion of the outstanding liability of the PILOT.

The Company is in a negative working capital position as of September 30, 2017, mainly due to the outstanding liability for contribution to the Government (PILOT). The Company is a component unit of PFA (which in turn is a component unit of the Government) and would need PFA's financial support to address its working capital deficiencies should the Government demand payment of past due PILOT. In January and March of 2017, the matching fund bonds and gross receipts tax bonds of the PFA experienced credit rating downgrades (Senior Lien Bonds to Caa1 from B1; Subordinate Lien Bonds to Caa1 from B1; Subordinated Indenture (Diageo) Bonds to Caa2 from B2; and Subordinated Indenture (Cruzan) Bonds to Caa2 from B2) due to the financial and budgetary challenges experienced by the Government. In January 2018, Moody's Ratings downgraded the PFA's Matching Fund Revenue Bonds as follows: Senior Lien Bonds to Caa2 from Caa1; Subordinate Lien Bonds to Caa3 from Caa2; Subordinated Indenture (Diageo) Bonds to Caa3 from Caa2; and Subordinated Indenture (Cruzan) Bonds to Caa3 from Caa2. The downgrade in rating was attributed by Moody's to the pending insolvency of the territory's pension system and the economic effects of Hurricanes Irma and Maria. Such downgrades are likely to negatively impact the PFA and Government's ability to access credit markets or to access them at supportable rates in the foreseeable future. In March 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five-year plan of revenue initiatives and cost-cutting measures to reduce and eliminate structural deficits.

The Government also faces the challenge of unfunded pension liabilities. The actuaries of the Government's defined benefit pension plan project the fund may be unable to meet its obligations by fiscal year 2023. The administrator of the pension plan, the Virgin Islands Government Employees Retirement System (GERS), an independent and separate agency of the Government, submitted proposed rate increases for employees effective January 1, 2015, 2016 and 2017. There can be no assurance that the Government's actions will enable the pension plan to continue without further pension reform measures.

In September 2017, the Government experienced significant infrastructure damage due to two Category 5 hurricanes. The Government retained the accounting firm of Ernst & Young Puerto Rico, LLC and the international firm of Witt O'Brien's, LLP to coordinate recovery efforts following the hurricanes. Federal assistance awarded to the Government in connection with the hurricanes totals approximately $4.2 billion and the Government expects to receive $8.0 billion in federal assistance through fiscal year 2025.

To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition and it is unknown what impact, if any, the Government's financial condition will have on the PFA. While the Bonds and Notes issued by the PFA are supported by the Government's pledged revenues, the PFA is highly dependent on the Government repaying its loans to the PFA for the PFA to repay its obligations and fund its operations. The Government is in a significant net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations. As of September 30, 2017, all payments on the Bonds and Notes have been made as required and the PFA is in compliance with all related covenants. This situation could have an impact on WICO, given its working capital deficiencies are mainly related to a past due liability with the Government, which the Government may need to collect on in order to address its own financial difficulties, and its dependency on PFA for financial support in such case.

The passing of Act 8053 authorizes the transfer of the Estate Catherineberg property from WICO to the people of the Virgin Islands. The Company shall bear all costs for the transition and repairs in conversion of Estate Catherineberg into a decorative art museum, which will be subtracted from the balance of the delinquent payments in lieu of taxes WICO owes to the Government of the Virgin Islands.

The Company also experienced a significant impairment loss during the year as a result of hurricanes Irma and Maria. During fiscal year 2018, the Company received an advance insurance payment of $2 million and came to a settlement agreement that would provide the Company with an additional $4 million in insurance proceeds including $3.5 million for business income losses.

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 Company:

The West Indian Company Limited
PO Box 7660 Charlotte Amalie
St. Thomas, VI 00801
(340) 774-1780

Financial Statements

The West Indian Company Limited
(A Component Unit of the Virgin Islands Public Finance Authority)

Statements of Net Position

	September 30 2017	2016
Assets		
Current assets:		
Cash and cash equivalents	**$ 2,761,241**	$ 2,593,916
Restricted cash	**2,533,776**	2,973,816
Trade accounts receivable, less allowance for doubtful accounts of $18,603 and $51,089 in 2017 and 2016, respectively	**496,413**	415,094
Other accounts receivable	**1,559,736**	1,465,706
Prepaid expenses and other current assets	**530,861**	634,267
Total current assets	**7,882,027**	8,082,799
Capital assets, net	**48,209,040**	44,604,954
Total assets	**56,091,067**	52,687,753
Liabilities		
Current liabilities:		
Accounts payable	**259,724**	1,369,488
Accrued expenses	**208,915**	1,623,693
Customer deposits	**113,339**	110,655
Payable to USVI Government	**7,350,000**	6,650,000
Loan payable, current portion	**585,777**	708,732
Total current liabilities	**8,517,755**	10,462,568
Loan payable, less current portion	**42,080,357**	31,472,331
Total liabilities	**50,598,112**	41,934,899
Net position (deficit)		
Net investment in capital assets	**5,542,906**	12,423,891
Restricted for debt service	**2,533,776**	2,973,816
Unrestricted (deficit)	**(2,583,727)**	(4,644,853)
Total net position	**$ 5,492,955**	$ 10,752,854

See accompanying notes.

The West Indian Company Limited
(A Component Unit of the Virgin Islands Public Finance Authority)

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended September 30	
	2017	**2016**
Operating revenues:		
Fees for services	**$ 8,817,860**	$ 9,144,013
Operating expenses:		
Cost of services and operating expenses	**4,984,964**	5,488,952
General and administrative expenses	**1,410,530**	1,398,420
Loss on impairment of capital assets	**1,910,257**	–
Depreciation	**2,961,692**	3,036,947
Total operating expenses	**11,267,443**	9,924,319
Loss from operations	**(2,449,583)**	(780,306)
Nonoperating revenues (expenses):		
Interest expense	**(2,267,159)**	(2,027,154)
Gain on sale of fixed assets	**700**	–
Interest and dividends	**7,668**	6,892
Other income	**148,475**	135,191
Contribution to the USVI Government	**(700,000)**	(700,000)
Total nonoperating revenues (expenses)	**(2,810,316)**	(2,585,071)
Change in net position	**(5,259,899)**	(3,365,377)
Net position at beginning of year	**10,752,854**	14,118,231
Net position at end of year	**$ 5,492,955**	$ 10,752,854

See accompanying notes.

The West Indian Company Limited
(A Component Unit of the Virgin Islands Public Finance Authority)

Statements of Cash Flows

	Year Ended September 30	
	2017	**2016**
Operating activities		
Cash received from customers	**$ 8,761,183**	$ 9,150,796
Cash paid to suppliers	**(5,004,736)**	(1,747,817)
Cash payments to employees for services	**(2,939,155)**	(2,973,840)
Net cash provided by operating activities	**817,292**	4,429,139
Capital and related financing activities		
Proceeds from loan issuance	**11,007,870**	334,225
Acquisition of capital assets	**(8,475,334)**	(3,542,881)
Payment of long-term debt, including interest	**(3,630,211)**	(2,075,890)
Net cash used in capital and related financing activities	**(1,097,675)**	(5,284,546)
Investing activities		
Interest received	**7,668**	6,891
Net cash provided by investing activities	**7,668**	6,891
Net change in cash and cash equivalents	**(272,715)**	(848,516)
Cash, cash equivalents and restricted cash equivalents at beginning of year	**5,567,732**	6,416,248
Cash and cash equivalents at end of year	**$ 5,295,017**	$ 5,567,732
For purposes of the statement of cash flows, cash and cash equivalents include:		
Unrestricted	**$ 2,761,241**	$ 2,593,916
Restricted:		
Cash segregated for payment of principal and interest on loan payable	**2,533,776**	2,973,816
	$ 5,295,017	$ 5,567,732
Noncash capital and related financing activities		
Gain on disposition of capital assets	**$ 700**	$ 500

(Continued)

Statements of Cash Flows (continued)

	Year Ended September 30 2017	2016
Reconciliation of loss from operations to net cash provided by operating activities		
Loss from operations	**$ (2,449,583)**	$ (780,306)
Adjustments to reconcile loss from operations to net cash provided by operating activities:		
Provision for doubtful accounts	**32,487**	(1,369)
Depreciation	**2,961,692**	3,036,947
Loss on impairment of capital assets	**1,910,257**	–
Other income	**148,475**	135,191
Loan origination costs	**840,252**	–
Changes in operating assets and liabilities that increase (decrease) cash:		
Trade accounts receivable	**(113,806)**	256,757
Other accounts receivable	**(94,030)**	(358,045)
Prepaid expenses and other current assets	**103,406**	(6,570)
Accounts payable	**(1,109,764)**	1,109,719
Accrued expenses	**(1,414,778)**	1,033,815
Customer deposits	**2,684**	3,000
Total adjustments	**3,266,875**	5,209,445
Net cash provided by operating activities	**$ 817,292**	$ 4,429,139

See accompanying notes.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

The West Indian Company Limited (the Company), incorporated in the United States Virgin Islands (USVI), is owned by the Government of the USVI (the Government) through the Virgin Islands Public Finance Authority (PFA). The Company's operations consist primarily of servicing cruise ships owned by established cruise lines.

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

Basis of Accounting

The accounting and reporting policies of the Company conform to the accounting rules prescribed by the Governmental Accounting Standards Board (GASB). The Company functions as an enterprise fund and maintains its accounting records on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles.

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 Company's assets after liabilities are deducted and consist of the following categories:

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

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

- *Unrestricted*: Net position that is not subject to externally imposed stipulations.

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

Basic Financial Statements (continued)

The Company distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Company's principal ongoing operations. The principal operating revenues of the Company are charges to customers for fees, dues and rent. Operating expenses for the Company includes the cost of services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

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

Sources of Income

The Company generates its revenue from the operation of its cruise ship port, related agency activities and rental of its land and warehouse facilities. The Company also generates revenue from fees received for the management of the portion of the Havensight Mall owned by GERS.

Cash and Cash Equivalents

The Company considers non-negotiable certificates of deposit and highly liquid investments with a maturity of three months or less when purchased to be cash equivalents in the accompanying statements of net position.

Allowance for Doubtful Accounts

The allowance for doubtful accounts is established based upon a review of individual accounts, loss experience, economic conditions and other factors. Losses are recorded as offsets to revenue in the period incurred and recoveries are credited to the allowance for doubtful accounts.

Capital Assets

Capital assets are recorded at cost and are depreciated using the straight-line method over the estimated useful life of the asset. Expenses for maintenance, repairs, and renewals are charged to expense as incurred, whereas major improvements are capitalized.

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

Accounting for Impairment of Long-Lived Assets

The Company, following the guidance of GASB Statement No. 42, Accounting and Financial Reporting of Capital Assets and for Insurance Recoveries, assesses the recoverability of the carrying values of its capital assets for possible impairments whenever events or changes in circumstances indicate that the carrying amount may be impaired.

Taxes

The Company is exempt from the payment of USVI income and property taxes as well as from U.S. federal income taxes.

In December 1999, the Legislature of the United States Virgin Islands (the Legislature) approved Bill No. 23-0178, which amended Bill No. 22-0216 dated May 1998. The old bill required the Company to contribute ten percent of net revenues, as defined, to the General Fund of the Virgin Islands. The new bill, which became effective in year 2000, required the Company to contribute the greater of ten percent of net revenues, as defined, or $500,000 to the General Fund of the Virgin Islands. In June 2003, the Legislature approved Bill No. 25-0038 to amend the annual contribution to the greater of ten percent of net revenues, as defined, or $1,000,000. Such amendment was effective for fiscal year 2003 and thereafter. On October 10, 2007, the Legislature approved Bill No. 27-0151 to require an annual in lieu of tax payment of the greater of ten percent of net revenues or $700,000 retroactive to fiscal year 2006 and thereafter.

The liability for contribution to the Government of the USVI as of September 30, 2017, represents the payments in lieu of taxes (PILOT) due for fiscal year 2006 and for fiscal years 2008 through 2017. In September 2015, the Company submitted a payment to the Government in the amount of $150,000 to demonstrate the Company's willingness to reduce the outstanding tax liability, while continuing to negotiate with the Government to resolve the outstanding tax liability balance and to reduce future PILOT obligations.

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

Taxes (continued)

WICO's outstanding balance of unpaid payments in lieu of taxes (PILOT) owed to the Government for fiscal years 2008 through 2017 amounted to $7.35 million as of September 30, 2017. On June 14, 2018, the Legislature passed Act 8053, to accept the transfer of an historic property, located in Estate Catherineberg, to the Government as a public decorative art museum, as part of a negotiated settlement of the amount due. WICO will be responsible for paying the costs of transferring and converting the property to a museum, as well as its annual maintenance and these amounts paid will reduce the unpaid PILOT amount owed.

Use of Estimates

The financial statements have been prepared in conformity with U.S. generally accepted accounting principles, which require 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. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

At September 30, 2017 and 2016, cash and cash equivalents consist of deposits in banks. By law, banks or trust companies designated as depository to public funds of the Government are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited. At September 30, 2017 and 2016, the cash and cash equivalents held by the Company were fully collateralized.

Cash and cash equivalents, segregated by category at September 30, 2017 and 2016, are as follows:

	2017		2016	
	Bank	**Carrying**	**Bank**	**Carrying**
Restricted	$ 2,533,776	$ 2,533,776	$ 2,973,816	$ 2,973,816
Unrestricted	2,873,843	2,761,241	2,659,273	2,593,916
Total	$ 5,407,619	$ 5,295,017	$ 5,633,089	$ 5,567,732

2. Cash and Cash Equivalents (continued)

Restricted cash represents cash segregated for debt service due under the Company's loan agreements in addition to an escrow account required by the Army Corps of Engineers' Financial Assurance policy for ACOE Permit No: SAJ-1998-00619 WICO Bulkhead Repair.

3. Capital Assets

Capital assets at September 30, 2017 and 2016, are as follows:

	Useful Lives *(In years)*	Balance 10/1/2016	Additions	Disposal/ Impairments	Transfers/ Adjustments	Balance 9/30/2017
Nondepreciable assets:						
Land	–	$ 5,147,278	$ –	$ –	$ –	$ 5,147,278
Construction in progress	–	5,076,718	8,134,503	–	(11,293,909)	1,917,312
Depreciable assets:						
Personal property and equipment	3 - 25	4,445,538	332,194	(42,963)	–	4,734,769
Buildings and building improvements	5 - 40	61,771,240	9,336	(1,921,331)	11,293,909	71,153,154
Total		76,440,774	8,476,033	(1,964,294)	–	82,952,513
Less accumulated depreciation		(31,836,818)	(2,961,691)	55,036	–	(34,743,473)
Total capital assets, net		$ 44,603,956	$ 5,514,342	$ (1,909,258)	$ –	$ 48,209,040

	Useful Lives *(In years)*	Balance 10/1/2015	Additions	Disposal/ Impairments	Transfers/ Adjustments	Balance 9/30/2016
Nondepreciable assets:						
Land	–	$ 5,147,278	$ –	$ –	$ –	$ 5,147,278
Construction in progress	–	1,866,490	3,210,227	–	–	5,076,717
Depreciable assets:						
Personal property and equipment	3 - 25	4,116,880	328,658	–	–	4,445,538
Buildings and building improvements	5 - 40	61,767,245	3,995	–	–	61,771,240
Total		72,897,893	3,542,880	–	–	76,440,773
Less accumulated depreciation		(28,798,873)	(3,036,947)	–	–	(31,835,820)
Total capital assets, net		$ 44,099,020	$ 505,933	$ –	$ –	$ 44,604,953

The life of a new asset is based on the asset value and the term of years that the asset is estimated to remain in service. An item with a value of no less than $500 will be capitalized. The Company recorded depreciation expense of $2,961,692 and $3,036,947 as of September 30, 2017 and 2016, respectively.

3. Capital Assets (continued)

In September 2017, the US Virgin Islands was struck by two category 5 hurricanes. As a result of the two storms, the Company sustained $1.9 million of damage to its assets. During fiscal year 2018, the company filed a claim with its insurance company and received a $2 million advance payment in May 2018. In September 2018, the Company came to an agreement with its insurer, providing the Company with an additional settlement amount of $4 million, of which $3.5 million was for business income losses.

4. Loan Payable

Loan payable activity for the years ended September 30, 2017 and 2016, was as follows:

Balance at 9/30/16	New Issuances	Principal Payments	Balance at 9/30/17
$ 32,181,063	$ 11,007,869	$ 522,798	$ 42,666,134

Balance at 9/30/15	New Issuances	Principal Payments	Balance at 9/30/16
$ 31,877,470	$ 834,225	$ 530,632	$ 32,181,063

On October 18, 2013, WICO finalized an agreement with Banco Popular (the Bank) to refinance a loan in the amount of $28,517,391 at an effective interest rate of 6.18% per annum with payments based on a 25-year amortization with a final maturity in six (6) years. The loan provided for an interest-only period of twelve months from the issuance date. 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.

4. Loan Payable (continued)

On November 12, 2014, WICO finalized a loan with Banco Popular de Puerto Rico in the amount of $3,750,000 to provide additional financing for a pier construction project. The loan bears interest at 6.75% and payments are based on a 25-year amortization, with a final maturity in six (6) years. The loan provided for an interest-only repayment period of twelve (12) months from its issue date. 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 refinanced this loan on July 27, 2017 as part of a consolidation of its loans with the Bank.

On March 29, 2016, WICO secured a non-revolving line of credit with Banco Popular in the amount of $11.6 million to finance the refurbishment and development of the WICO dock. The non-revolving line of credit had a term of one year with interest-only payments at a fixed rate of 5.25%. At the end of the year, the non-revolving line of credit was to be converted to a five (5) year Commercial Term Loan with payments based on a 25-year amortization and a final maturity in five (5) years. The construction project was delayed, and WICO requested an extension of the maturity date of the line of credit. On March 10, 2017, Banco Popular approved the Company's request to extend the maturity date of the note from March 29, 2017, to July 31, 2017. WICO refinanced this loan on July 27, 2017 as part of a consolidation of its loans with the Bank.

On July 27, 2017, WICO consolidated its existing loans with Banco Popular in the amount of $42,697,836 at a fixed interest rate of 5.25% per annum, amortized on a 25-year term with a final maturity in five years. Should WICO stay in compliance with the terms of Consolidated Loan, then upon maturity, WICO may refinance the loan for a term not to exceed twenty (20) years, subject to new terms and conditions. WICO may prepay the Consolidated Loan, however there is a prepayment penalty of 2% of the outstanding principal of the Consolidated Loan.

Security and collateral for the Consolidated Loan include a first-priority security interest in WICO's assets and a pledge of WICO revenues. WICO must also maintain insurance on its facilities at full replacement cost value, and business interruption insurance equal to one year's net revenues. WICO is required to pay all payments in lieu of taxes (PILOT) to the Government of the Virgin Islands. WICO is required to maintain a Debt Service Reserve Fund with the Bank in the amount of $3,070,390. WICO received approval from the Bank for issuance costs of the Consolidated Loan to be paid from the Debt Service Reserve Account. The Debt Service Reserve Fund is to be replenished within one year from the closing date.

4. Loan Payable (continued)

WICO is also required to maintain a Debt Service Coverage Ratio Reserve with an amount equal to the shortfall, if any, between WICO's earnings before interest, taxes, depreciation and amortization (EBITDA) and WICO's required annual debt service coverage ratio (DSCR), so that net revenues are not less than 1.25 times annual debt service payments. WICO is also required to maintain a Fixed Coverage Ratio of 1.10 times EBITDA divided by the current portion of long term debt (CPLTD) plus interest expense, PILOT, maintenance and capital expenditures. At the date of the Consolidated Loan WICO held $213,202 in the Debt Service Coverage Ratio Reserve Fund.

WICO may not declare dividends during the term of the Consolidated Loan, and no additional equity interests may be granted without the lender's approval.

Future principal payments on the Consolidated Loan subsequent to September 30, 2017, are as follows:

Year Ending September 30,	Principal	Interest	Total
2018	$ 585,777	$ 2,484,613	$ 3,070,390
2019	820,377	2,250,012	3,070,389
2020	858,914	2,211,476	3,070,390
2021	911,978	2,158,412	3,070,390
2022	39,489,087	1,753,885	41,242,972
Total	$ 42,666,133	$ 10,858,398	$ 53,524,531

During the year ended September 30, 2017, the Company did not comply with the debt service coverage and debt service reserve requirements, which requires that the Company meet debt service coverage targets and maintain sufficient cash for one year's debt service. The debt service coverage target was not met by $401,893, an amount which the Company will deposit upon the Bank's review and evaluation of the Company's audited financial statements. This is not considered an event of default under the loan agreement.

5. Employee Benefit Plans

The West Indian Company Limited Employee Retirement Plan (the Plan) is a defined contribution retirement and savings plan sponsored by the Company, covering the Company's employees not governed by a collectible bargaining agreement. The Plan is administered by Weber Shapiro & Co. LLP. Under the provisions of the Plan, the employees must contribute at least 3% of their gross compensation and may contribute up to 7% of their compensation. The Company matches 3% of the employees' contribution plus a non-elective distribution at the discretion of the Company, which is divided among eligible employees, proportionate to compensation.

Required contributions to the pension and savings plan made and charged to operations were approximately \$120,000 and \$119,000 for the years ended September 30, 2017 and 2016, respectively. Total contribution made to the Plan by the covered employee during 2017 and 2016 amounted to approximately \$126,900 and approximately \$131,900, respectively. The Company does not offer other post-retirement benefits to its employees.

6. Related Party Transactions

On September 29, 2014, the Company renewed the management agreement with the GERS under which the Company administers the real estate operations sold to GERS in consideration of rent for office buildings used by the Company. The Company charges 6% of gross rent receipts for the administration of GERS' properties. The agreement also provides that certain payroll costs be allocated between the Company and GERS. During the years ended September 30, 2017 and 2016, payroll costs allocated to GERS were approximately \$1,869,600 and \$1,847,000, respectively.

The amount due from GERS in connection with these allocations amounted to approximately \$1,443,400 and \$1,305,600 at September 30, 2017 and 2016, respectively, and is included in other accounts receivable in the accompanying statements of net position.

7. Concentration of Risk

During the years ended September 30, 2017 and 2016, customers representing more than 10% of total revenues are as follows:

	2017	2016
Carnival Cruise Line	54%	41%
Norwegian Cruise Line	33%	24%
Royal Caribbean Cruise Line	1%	25%

8. Recently Issued Accounting Pronouncements

The GASB has issued the following accounting standards which did not have an impact on the Company's financial statements:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, which is effective for periods beginning after October 1, 2016.
- GASB Statement No. 77, *Tax Abatement Disclosures*, which is effective for periods beginning after October 1, 2016.
- GASB Statement No. 78, *Pensions Provided Through Certain Multi-Employer Defined Benefit Pensions,* which is effective for periods beginning after December 15, 2015.
- GASB Statement No. 80, *Blending Requirements for Certain Component Units-an Amendment of GASB Statement No. 1*, which is effective for periods beginning after October 1, 2016.

8. Recently Issued Accounting Pronouncements (continued)

The GASB has issued the following accounting standards which the Company has not yet adopted:

Statement No.	Overview	Adoption Required in Fiscal Year
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
81	Irrevocable Split-Interest Agreements	2018
83	Certain Asset Retirement Obligations	2019
84	Fiduciary Activities	2020
85	Omnibus 2017	2018
86	Certain Debt Extinguishment Issues	2018
87	Leases	2021
88	Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements	2019
89	Accounting for Interest Cost Incurred Before the End of a Construction Period	2021
90	Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61	2020
91	Conduit Debt Obligations	2022

The Company is evaluating the impact these statements will have on the Company's financial statements.

9. Leases in the Financial Statements of Lessors

The Company leases several warehouses and land to commercial businesses for the generation of income. The cost and carrying amount of leased property as of September 30, 2017 and 2016 were approximately $4,600,000 and $2,500,000 respectively.

9. Leases in the Financial Statements of Lessors (continued)

The schedule of future minimum rentals for the fiscal years 2018 – 2021 is as follows:

	2018	2019	2020	2021	Total
Warehouse rentals	$ 341,603	$ 276,394	$ 262,500	$ 279,000	$ 1,159,497
Land rentals	397,750	410,500	423,250	436,000	1,667,500
	$ 739,353	$ 686,894	$ 685,750	$ 715,000	$ 2,826,997

10. Commitments and Contingencies

The Company entered into agreements with certain cruise lines providing preferential birthing rights in exchange for a passenger services charge (PSC) with guaranteed annual revenue due to the Company. The agreements commenced on October 1, 2016 and extend through September 30, 2021, with optional extension periods through September 30, 2026. The Company will track and reconcile passenger manifests on an annual basis to determine amounts due to or owed by the Company.

11. Financial Condition

The Company is in a negative working capital position as of September 30, 2017, mainly due to the outstanding liability for contribution to the Government (PILOT). The Company is a component unit of PFA (which in turn is a component unit of the Government) and would need PFA's financial support to address its working capital deficiencies should the Government demand payment of past due PILOT. In January and March of 2017, the matching fund bonds and gross receipts tax bonds of the PFA experienced credit rating downgrades (Senior Lien Bonds to Caa1 from B1; Subordinate Lien Bonds to Caa1 from B1; Subordinated Indenture (Diageo) Bonds to Caa2 from B2; and Subordinated Indenture (Cruzan) Bonds to Caa2 from B2) due to the financial and budgetary challenges experienced by the Government. In January 2018, Moody's Ratings downgraded the PFA's Matching Fund Revenue Bonds as follows: Senior Lien Bonds to Caa2 from Caa1; Subordinate Lien Bonds to Caa3 from Caa2; Subordinated Indenture (Diageo) Bonds to Caa3 from Caa2; and Subordinated Indenture (Cruzan) Bonds to Caa3 from Caa2. The downgrade in rating was attributed by Moody's to the pending insolvency of the territory's pension system and the economic effects of Hurricanes Irma and Maria. Such downgrades are likely to negatively impact the PFA and Government's ability to access credit markets or to access them at supportable rates in the foreseeable future. In March 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic

11. Financial Condition (continued)

Recovery Act, a five-year plan of revenue initiatives and cost-cutting measures to reduce and eliminate structural deficits.

The Government also faces the challenge of unfunded pension liabilities. The actuaries of the Government's defined benefit pension plan project the fund may be unable to meet its obligations by fiscal year 2023. The administrator of the pension plan, the Virgin Islands Government Employees Retirement System (GERS), an independent and separate agency of the Government, submitted proposed rate increases for employees effective January 1, 2015, 2016 and 2017. There can be no assurance that the Government's actions will enable the pension plan to continue without further pension reform measures.

In September 2017, the Government experienced significant infrastructure damage due to two Category 5 hurricanes. The Government retained the accounting firm of Ernst & Young Puerto Rico, LLC and the international firm of Witt O'Brien's, LLP to coordinate recovery efforts following the hurricanes. Federal assistance awarded to the Government in connection with the hurricanes totals approximately $4.2 billion and the Government expects to receive $8.0 billion in federal assistance through fiscal year 2025.

To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition and it is unknown what impact, if any, the Government's financial condition will have on the PFA. While the Bonds and Notes issued by the PFA are supported by the Government's pledged revenues, the PFA is highly dependent on the Government repaying its loans to the PFA for the PFA to repay its obligations and fund its operations. The Government is in a significant net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations. As of September 30, 2017, all payments on the Bonds and Notes have been made as required and the PFA is in compliance with all related covenants. This situation could have an impact on WICO, given its working capital deficiencies are mainly related to a past due liability with the Government, which the Government may need to collect on in order to address its own financial difficulties, and its dependency on PFA for financial support in such case.

The passing of Act 8053 authorizes the transfer of the Estate Catherineberg property from WICO to the people of the Virgin Islands. The Company shall bear all costs for the transition and repairs in conversion of Estate Catherineberg into a decorative art museum, which will be subtracted from the balance of the delinquent payments in lieu of taxes WICO owes to the Government of the Virgin Islands.

11. Financial Condition (continued)

The Company also experienced a significant impairment loss during the year as a result of hurricanes Irma and Maria. During fiscal year 2018, the Company received an advance insurance payment of $2 million and came to a settlement agreement that would provide the Company with an additional $4 million in insurance proceeds including $3.5 million for business income losses.

12. Subsequent Events

In May 2018, the Company received $2 million in insurance proceeds related to damage incurred by Hurricanes Irma and Maria in September 2017. The Company came to an agreed-upon settlement with the insurance carrier of $3.48 million in property damage and $3.5 million of lost business income and additional expenses following the hurricanes. The Company received $3.98 million in September 2018 as a final settlement of the insurance claim.

In June 2018, the Company, in coordination with the US Virgin Islands Port Authority, applied for a permit to dredge 250,000 cubic yards which will be removed from the channel and turn basin and 40,000 will be removed from WICO's berth area, to accommodate larger cruise ships. The Government committed to funding $23 million for this project from the U.S. Department of Housing and Urban Development's Community Development Block Grant - Disaster Recovery Funds.

In June 2018, the Legislature of the Virgin Islands passed Act 8053 authorizing the transfer of an Estate Catherineberg historic property owned by the Company to the Government for use as a public decorative art museum. This transfer is part of a negotiated settlement with the Company for unpaid PILOT amounts due to the Government from prior years. The Company will be responsible for paying the costs of transferring and converting the property to a museum, as well as the annual maintenance for the property.

In September 2018, the Company made a $700,000 PILOT payment toward the prior years' outstanding balance to the Government of the Virgin Islands.

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

The Board of Directors of
The West Indian Company Limited

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The West Indian Company Limited (the Company), which comprise the statement of net position as of September 30, 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Company'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 Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company'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. 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 Company'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 effectiveness of 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

September 10, 2019

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