



Government of the United States Virgin Islands

Management's Discussion
and Analysis, Financial Statements (with
Independent Auditor's Report Thereon) and
Required Supplementary Information
Year Ended September 30, 2018

**Government of the
United States Virgin Islands**

Management's Discussion and Analysis,
Financial Statements (With Independent Auditor's
Report Thereon) and Required Supplementary Information
Year Ended September 30, 2018

Government of the United States Virgin Islands

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Independent Auditor's Report

To the Honorable Governor
of the Government of the United States Virgin Islands

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Government's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements.

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

Auditor's Responsibility

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

- The Virgin Islands Housing Authority (VIHA), Virgin Islands Economic Development Authority (VIEDA), Virgin Islands Waste Management Authority (VIWMA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Governor Juan F. Luis Hospital and Medical Center), and the Virgin Islands Housing Finance Authority (VIHFA), discretely-presented component units, which collectively represent 28.9%, (64.1%), and 35.5%, respectively, of the assets, net position (deficit), and revenues of the Aggregate Discretely-Presented Component Units.
- The Virgin Islands Lottery (V.I. Lottery), a nonmajor enterprise fund, which represents 1.1% and 6.4%, respectively, of the assets and revenues of the Aggregate Remaining Fund Information, and 11.0% and 22.9%, respectively, of the assets and revenues of the Business-Type Activities.
- Government Employees' Retirement System of the U.S. Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 71.0%, 85.4%, and 62.5%, respectively, of the assets, net position/fund balance, and revenues/additions of the Aggregate Remaining Fund Information.



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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

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

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

Except for the matters described in the Basis for Disclaimer of Opinion on the Business-Type Activities, Unemployment Insurance-Enterprise Fund, and the Aggregate Remaining Fund Information paragraphs, we believe that the audit evidence we and other auditors have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Summary of Opinions

| <u>Opinion Unit</u> | <u>Type of Opinion</u> |
|---|------------------------|
| Governmental Activities | Qualified |
| Business-Type Activities | Disclaimer |
| General Fund | Qualified |
| Debt Service Fund | Unmodified |
| Capital Projects Fund | Unmodified |
| Federal Grants Fund | Qualified |
| The West Indian Company Limited-Enterprise Fund | Unmodified |
| Unemployment Insurance-Enterprise Fund | Disclaimer |
| viNGN, INC.-Enterprise Fund | Unmodified |
| Aggregate Remaining Fund Information | Disclaimer |
| Aggregate Discretely Presented Component Units | Qualified |



Basis for Qualified Opinion on Governmental Activities

The Government did not maintain the requisite documentation to support its accrued retroactive liability as of and for the year ended September 30, 2018. As such, we are unable to determine whether adjustments were required in the Governmental Activities.

The Government did not maintain the requisite documentation to support its interest and other revenues in the amount of \$26.7 million for the year ended September 30, 2018. As such, we were unable to determine whether adjustments were required in the Governmental Activities.

The Government's notes to the basic financial statements do not include the necessary information under Governmental Accounting Standards Board, Statement No. 77, *Tax Abatement Disclosures*. In our opinion, disclosure of this information is required by accounting principles generally accepted in the United States of America.

Basis for Qualified Opinion on Governmental Activities, General Fund, and Federal Grants Fund

The Government did not maintain the requisite documentation to support its determination as to the sufficiency of the design and operation of key controls surrounding the environment in which Medicaid claims are processed. As such, we were unable to determine whether adjustments were required in the General Fund and in the Governmental Activities.

The Government did not maintain the requisite documentation to support its due from federal government and federal grants and contributions revenues in the amount of \$34.7 million as of the year ended September 30, 2018. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments were required in the Federal Grants Fund and in the Governmental Activities.

Basis for Qualified Opinion on Aggregate Discretely Presented Component Units

The financial statements of the University of the Virgin Islands Research and Technology Park Corporation (RTPark), have not been audited, and we were not engaged to audit RTPark's financial statements as part of our audit of the Government's basic financial statements. RTPark's financial activities are included in the Government's basic financial statements as discretely-presented component units and represent .7%, 9.8%, and .4% of the assets, net position, and revenues, respectively, of the Aggregate Discretely Presented Component Units.

The report of other auditors on the 2018 financial statements of VIWMA, a discretely presented component unit, was qualified because VIWMA did not properly identify, classify, and record expenditures related to damages incurred as a result of the 2017 hurricanes. Accordingly, the auditors were unable to determine whether adjustments to accounts payable, grant expenditures and receivables from the Federal government, and expense classifications were required. The auditors were unable to obtain sufficient audit evidence to determine whether capital assets were fairly stated.



The report of other auditors on the 2018 financial statements of MBA, a discretely presented component unit, was qualified because MBA does not report net pension liability, other postemployment benefits (OPEB) revenue, OPEB expense, pension expense, related deferred inflows and outflows of resources, if any, the required financial statements disclosures and the required supplementary information as required by accounting principles generally accepted in the United States of America.

The Electric System of the Virgin Islands Water and Power Authority has classified a portion of its outstanding bonds and notes as long-term liabilities in its statement of net position. In our opinion, these obligations should be classified as current liabilities to conform with accounting principles generally accepted in the United States of America because at June 30, 2018, the Electric System is in default on certain covenants pertaining to its bond resolutions and the lenders may demand repayment of these obligations. If the financial statements were corrected for that departure from accounting principles generally accepted in the United States of America, total current liabilities would be increased by \$251.4 million and total noncurrent liabilities would be decreased by \$251.4 million as of June 30, 2018.

Qualified Opinion

In our opinion, based on our audit and the reports of other auditors, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs above, the financial statements referred to above present fairly, in all material respects, the financial position of the Governmental Activities, General Fund, Federal Grants Fund, and the Aggregate Discretely Presented Component Units of the Government of the United States Virgin Islands as of September 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Disclaimer of Opinion on Business-Type Activities and on Aggregate Remaining Fund Information

The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the Business-Type Activities and Aggregate Remaining Fund Information as of and for the year ended September 30, 2018, may have been affected by this condition.

The Government did not maintain the requisite documentation to support its workers compensation liability of \$35.9 as of and for the year ended September 30, 2018. As such, we were unable to determine whether adjustments were required in the Business-Type Activities and the Aggregate Remaining Fund Information.

The Government did not maintain the requisite documentation to support its interest and other revenues in the Business-Type Activities in the amount of \$8.5 million and in the Aggregate Remaining Fund information in the amount \$35.2 million for the year ended September 30, 2018. As such, we were unable to determine whether adjustments were required in the Business-Type Activities and the Aggregate Remaining Fund Information.



Basis for Disclaimer of Opinion on Unemployment Insurance-Enterprise Fund and on Business-Type Activities

The Government's records were not available or contained incomplete information. As such, the records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the Unemployment Insurance-Enterprise Fund and Business-Type Activities as of and for the year ended September 30, 2018, may have been affected by this condition.

Disclaimer of Opinion

Because of the significance of the matters discussed in the Basis for Disclaimer Opinion paragraphs above, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Business-Type Activities, the Unemployment Insurance-Enterprise Fund, and on the Aggregate Remaining Fund Information of the Government of the United States Virgin Islands. Accordingly, we do not express an opinion on these financial statements.

Unmodified Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund, other than the General Fund, Federal Grants Fund, and Unemployment Insurance-Enterprise Fund of the Government of the United States Virgin Islands as of September 30, 2018, and the respective changes in financial position and, where applicable cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 15, in 2018, the Government adopted Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As further discussed in Note 17, certain adjustments were applied to restate beginning net position. Our opinion, based on our audit and the reports of other auditors, is not modified with respect to these matters.

The accompanying financial statements have been prepared assuming the Government will continue as a going concern. As discussed in Note 16 to the financial statements, the Government reported an unrestricted net deficit in Governmental Activities and in the General Fund that raise substantial doubt about its ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 16. These financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

As discussed in Note 18 to the financial statements, the Government may be adversely impacted by the outbreak of a novel strain of coronavirus, known as COVID-19, which was declared a global pandemic by the World Health Organization in March 2020. Our opinion is not modified with respect to this matter.



Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of changes in total OPEB liability and related ratios, net pension liability, pension contributions, and revenue and expenditures - budget and actual budgetary basis - General Fund on pages 9 through 21 and 141 through 146, 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2020, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Government's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Government's internal control over financial reporting and compliance.

BDO USA, LLP

June 30, 2020

**Management's
Discussion and Analysis**

Government of the United States Virgin Islands

Management's Discussion and Analysis

Introduction

The following management's discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2018 and 2017.

Government-wide Financial Statements

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

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

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

Governmental Activities - The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with the primary government fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.

Business-Type Activities - These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the: (i) the West Indian Company (WICO); (ii) the unemployment insurance program; and (iii) viNGN, Inc. dba Virgin Islands Next Generation Network (viNGN). These programs operate with minimal assistance from the governmental activities of the Government.

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

Fund Financial Statements

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

Government of the United States Virgin Islands

Management's Discussion and Analysis

A major fund is a fund whose revenues, expenditures or expenses, assets, or liabilities (excluding extraordinary items) are at least 10.0% of the corresponding totals for all governmental or enterprise funds and at least 5.0% of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always considered a major fund. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the Government believes is particularly important to the financial statements may be reported as a major fund.

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

Governmental Funds

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

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

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

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

The Federal grants fund accounts for proceeds and federal payments that are legally restricted for expenditures for federally specified purposes.

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

Proprietary Funds

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

Government of the United States Virgin Islands

Management's Discussion and Analysis

The West Indian Company Limited (WICO), the Unemployment Insurance Fund, and viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN) are major proprietary funds.

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

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

The viNGN fund accounts for the activities of viNGN, which designs, develops and manages a middle mile wholesale fiber optic network in order to make available reliable high-speed internet connections to retail internet service providers.

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

Fiduciary Funds

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

Financial Analysis of the Government as a Whole

The Government faces the challenge of maintaining fiscal sustainability, promoting economic growth and rebuilding infrastructure following two Category 5 hurricanes in September 2017. To promote fiscal sustainability, the Government retained an international firm to develop short and long-range cash management strategies, identify federal recovery grants, implement a recovery website and assist with federal reporting of recovery grants. The Government has also retained the services of a national engineering firm to lead the reconstruction effort in the Virgin Islands and provide oversight of FEMA Hazard Mitigation and HUD Community Disaster grants. In the second annual progress report following the hurricanes, the Office of Disaster Recovery estimated federal recovery funding for the Virgin Islands amounted to \$8.0 billion to be received over a five-year period.

The Government has initiated outreach programs to promote environmentally safe industries and to attract investors. During fiscal year 2018, the Government began negotiations with Limetree Bay Refining, an affiliate of Limetree Bay Terminals, LLC (Limetree) to restart oil refining on the island of St. Croix. An agreement was reached in December 2018, and Limetree will invest \$1.3 billion in the St. Croix facility, along with the purchase of land and housing units near the oil terminal for a closing payment of \$70.0 million.

In December 2017, the Government was awarded loans under the Community Disaster Loans (CDLs) program of the Federal Emergency Management Agency (FEMA). On July 1, 2018, PFA issued \$188.5 million in Series 2018 A Revenue Bonds in a private placement to FEMA. The bonds secure certain CDLs issued to the Government and two semi-autonomous hospitals following the Hurricanes in September 2017. These bonds are secured by a pledge of gross receipts tax revenue.

Government of the United States Virgin Islands

Management's Discussion and Analysis

Financial Analysis of the Primary Government

Total assets and deferred outflows of resources of the Government as of September 30, 2018 and 2017, were approximately \$2.9 billion and \$2.8 billion, respectively. Total liabilities and deferred inflows were approximately \$7.8 billion and \$7.2 billion, respectively, over the same period. Liabilities exceed assets mainly due to unfunded pension and other postemployment benefits such as health insurance due to retired Government employees amounting to \$4.1 billion and \$4.4 billion at September 30, 2018 and 2017.

At September 30, 2018, the Government's net deficit of \$4.9 billion consisted of \$278.8 million invested in capital assets, net of related debt; \$287.9 million restricted by statute or other legal requirements that were not available to finance day-to-day operations; and an unrestricted net deficit of \$5.5 billion. As of September 30, 2017, the Government's net position was a deficit of \$4.5 billion consisting of \$146.6 million investment in capital assets, net of related debt; \$268.2 million restricted by statute or other legal requirements that were not available to finance day-to-day operations; and an unrestricted net deficit of \$4.9 billion.

For the fiscal year ended September 30, 2018, the primary government earned program and general revenue amounting to \$2.1 billion, including net insurance recoveries of \$124.0 million, and reported expenses of \$2.2 billion resulting in an increase in net deficit of approximately \$68.3 million. For the fiscal year ended September 30, 2017, the primary government earned program and general revenue amounting to \$1.3 billion and reported expenses of \$1.8 billion, including net impairment losses of \$227.3 million, resulting in an increase in net deficit of approximately \$747.4 million.

Overall, revenue increased in fiscal 2018 by approximately \$861.8 million, when compared to fiscal 2017, mainly due to net insurance recoveries recognized of \$124.0 million, an increase in federal operating grant revenues of \$601.4 million and an increase in tax revenues of \$89.3 million.

Overall expenses increased in fiscal 2018 by \$182.7 million, when compared to fiscal 2017, mainly due to increases in federal expenditures and professional services hired for the Government's recovery and rebuilding projects and activities.

Government of the United States Virgin Islands

Management's Discussion and Analysis

A summary of net position and changes in net position for the primary government follows (expressed in thousands):

| September 30, | Governmental Activities | | Business-Type Activities | | Total | |
|---|-------------------------|-----------------------|--------------------------|--------------------|-----------------------|-----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Assets and Deferred Outflows | | | | | | |
| Current assets | \$ 1,223,348 | \$ 956,041 | \$ 37,507 | \$ 41,990 | \$ 1,260,855 | \$ 998,031 |
| Internal balances | 46,902 | 46,447 | (46,902) | (46,447) | - | - |
| Capital assets | 745,054 | 643,215 | 127,599 | 132,927 | 872,653 | 776,142 |
| Other assets | 7,213 | 4,573 | 1,131 | 975 | 8,344 | 5,548 |
| Deferred outflows of resources | 792,112 | 985,758 | - | - | 792,112 | 985,758 |
| Total assets and deferred outflows | 2,814,629 | 2,636,034 | 119,335 | 129,445 | 2,933,964 | 2,765,479 |
| Liabilities and Deferred Inflows | | | | | | |
| Long-term liabilities | 6,524,188 | 6,298,084 | 74,615 | 79,523 | 6,598,803 | 6,377,607 |
| Other liabilities | 845,364 | 775,523 | 94,692 | 89,937 | 940,056 | 865,460 |
| Deferred inflows of resources | 284,370 | 6,027 | - | - | 284,370 | 6,027 |
| Total liabilities and deferred inflows | 7,653,922 | 7,079,634 | 169,307 | 169,460 | 7,823,229 | 7,249,094 |
| Net Position | | | | | | |
| Net investment in capital assets | 230,693 | 93,180 | 48,148 | 53,457 | 278,841 | 146,637 |
| Restricted | 282,585 | 260,321 | 5,329 | 7,862 | 287,914 | 268,183 |
| Unrestricted deficit | (5,352,571) | (4,797,101) | (103,449) | (101,334) | (5,456,020) | (4,898,435) |
| Total net deficit | \$ (4,839,293) | \$ (4,443,600) | \$ (49,972) | \$ (40,015) | \$ (4,889,265) | \$ (4,483,615) |

Government of the United States Virgin Islands

Management's Discussion and Analysis

| September 30, | Governmental Activities | | Business-Type Activities | | Total | |
|--|-------------------------|-----------------------|--------------------------|--------------------|-----------------------|-----------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Revenues | | | | | | |
| Program revenue: | | | | | | |
| Charges for services | \$ 20,857 | \$ 25,296 | \$ 58,751 | \$ 62,471 | \$ 79,608 | \$ 87,767 |
| Operating grants and contributions | 840,282 | 256,390 | 17,741 | 236 | 858,023 | 256,626 |
| Capital grants and contributions | 72,951 | 20,405 | - | - | 72,951 | 20,405 |
| General revenue: | | | | | | |
| Taxes | 934,577 | 845,242 | - | - | 934,577 | 845,242 |
| Interest and other | 57,654 | 60,661 | 8,714 | 5,110 | 66,368 | 65,771 |
| Payment in lieu of taxes | 11,141 | 8,975 | - | - | 11,141 | 8,975 |
| Tobacco settlement rights | 1,094 | 1,201 | - | - | 1,094 | 1,201 |
| Total revenues | 1,938,556 | 1,218,170 | 85,206 | 67,817 | 2,023,762 | 1,285,987 |
| Expenses | | | | | | |
| General government | 1,296,511 | 879,538 | - | - | 1,296,511 | 879,538 |
| Public safety | 91,868 | 89,537 | - | - | 91,868 | 89,537 |
| Health | 71,568 | 136,435 | - | - | 71,568 | 136,435 |
| Public housing and welfare | 284,087 | 216,628 | - | - | 284,087 | 216,628 |
| Education | 215,405 | 246,621 | - | - | 215,405 | 246,621 |
| Transportation and communication | 48,032 | 57,608 | - | - | 48,032 | 57,608 |
| Culture and recreation | 6,893 | 12,423 | - | - | 6,893 | 12,423 |
| Interest on long-term debt | 102,613 | 104,542 | - | - | 102,613 | 104,542 |
| Unemployment insurance | - | - | 43,166 | 1,278 | 43,166 | 1,278 |
| West Indian Company | - | - | 12,449 | 11,625 | 12,449 | 11,625 |
| viNGN | - | - | 9,806 | 8,382 | 9,806 | 8,382 |
| Other | - | - | 33,681 | 41,477 | 33,681 | 41,477 |
| Total expenses | 2,116,977 | 1,743,332 | 99,102 | 62,762 | 2,216,079 | 1,806,094 |
| Changes in net position (deficit) before transfers and special item | (178,421) | (525,162) | (13,896) | 5,055 | (192,317) | (520,107) |
| Transfers | (1,000) | (300) | 1000 | 300 | - | - |
| Special item - insurance recoveries (impairment losses) on capital assets, net | 119,240 | (221,222) | 4,756 | (6,062) | 123,996 | (227,284) |
| Changes in net deficit | (60,181) | (746,684) | (8,140) | (707) | (68,321) | (747,391) |
| Net deficit, beginning of year, as restated | (4,779,112) | (3,696,916) | (41,832) | (39,308) | (4,820,944) | (3,736,224) |
| Net deficit, end of year | \$ (4,839,293) | \$ (4,443,600) | \$ (49,972) | \$ (40,015) | \$ (4,889,265) | \$ (4,483,615) |

Government of the United States Virgin Islands

Management's Discussion and Analysis

Financial Analysis of the Government's Funds

Governmental Funds

Governmental Funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Government's financing requirements. In particular, the unassigned fund balance/deficit may serve as a useful measure of a government's net resources available, or not available, for discretionary use as they represent the portion of the fund balance which has not yet been limited to use for a particular purpose by either an external party or the primary Government.

At September 30, 2018, the Government's governmental funds reported a combined fund balance of \$454.5 million, an increase of \$191.7 million when compared to the prior year combined fund balance of \$262.8 million. Approximately \$226.8 million of this amount consists of deficit unassigned fund balances representing expenditures in governmental funds that exceeded discretionary funds available. The remainder of the fund balance is either restricted, committed, or assigned to indicate that it is: i) restricted for particular purposes (\$474.8 million), ii) committed for particular purposes (\$123.0 million), or iii) assigned for particular purposes (\$83.5 million).

The General Fund is the chief operating fund of the primary Government. At September 30, 2018, the unassigned fund deficit of the General Fund was \$72.4 million while the total fund deficit of the General Fund was \$40.8 million. The fund balance of the General Fund increased by \$167.1 million during the current fiscal year. This increase was achieved - mainly due to a decrease in General Fund expenditures of \$74.2 million and an increase in General Fund tax revenues of \$84.3 million, and the receipt of a Community Disaster Loan from FEMA in the amount of \$188.5 million structured as the Series 2018 bonds.

The PFA Debt Service Fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government. At September 30, 2018, the restricted fund balance of the PFA Debt Service Fund was \$282.3 million, an increase of \$22.3 million from the prior fiscal year. This increase is mainly due to an increase in tax revenue of \$2.0 million, an increase in interest and other revenue of \$0.9 million, an increase in transfers from other funds of \$7.8 million and a decrease in transfers to other funds of \$8.9 million.

The PFA Capital Projects Fund accounts for bond proceeds issued by PFA that have been designated for certain necessary public safety and capital development projects. At September 30, 2018, the restricted fund balance of the PFA Capital Projects Fund was \$153.9 million, a decrease of \$9.2 million from the prior fiscal year. The decrease was due to capital outlays.

The Federal Grants Fund accounts for proceeds and payments that are restricted to expenditures for specified purposes. At September 30, 2018, the fund deficit of the Federal Grants Fund increased by \$50.9 million to \$88.2 million. The increase was due to federal grant expenditures exceeding federal grant revenues by \$53.5 million, offset by transfers from other funds by \$2.6 million.

Government of the United States Virgin Islands

Management's Discussion and Analysis

Proprietary Funds

Proprietary Funds. The focus of *proprietary funds* is to report the same functions presented as business-type activities in the government-wide financial statements. Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the West Indian Company, Ltd (WICO), Unemployment Insurance, and the Virgin Islands Next Generation Network (viNGN) as these funds are considered to be major funds.

At September 30, 2018, the primary Government's proprietary funds reported a combined net deficit of \$50.0 million, a decrease of \$8.2 million when compared to the prior year combined net deficit of \$41.8 million. The net deficit is the result of an unrestricted deficit in the proprietary funds (\$103.4 million), offset by net investment in capital assets (\$48.1 million) and restricted net position (\$5.3 million).

WICO owns a port facility including a cruise ship pier and manages a shopping mall complex on the islands of St. Thomas. At September 30, 2018, the net position of WICO was \$1.2 million, a decrease of \$2.4 million from the restated net position of the prior fiscal year. This decrease was mainly due to a deficit in operations of \$2.3 million and interest expense of \$2.3 million, offset by insurance recoveries of \$2.1 million.

The Unemployment Insurance Fund is a federally mandated program to manage unemployment insurance. At September 30, 2018, the net deficit of the fund was \$68.2 million, an increase of \$14.1 million from the prior fiscal year. The increase in net deficit is mainly due to an increase in unemployment claims following the 2017 hurricanes.

viNGN designs, develops and manages a middle mile wholesale fiber optic network in order to make available reliable high-speed internet connections to retail internet service providers. At September 30, 2018, viNGN reported net position of \$32.6 million, a decrease of \$3.3 million from the prior fiscal year. This decrease was mainly due to a loss in operations of \$6.2 million offset by insurance recoveries of \$2.5 million and grant revenues of \$350 thousand.

Government of the United States Virgin Islands

Management's Discussion and Analysis

General Fund Budgetary Highlights

The Virgin Islands Office of Management and Budget prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in the Required Supplementary Information accompanying the basic financial statements.

A summary of the budgetary report for the General Fund of the Government, included on page 144 of the financial statements, follows (expressed in thousands):

| September 30, 2018 | Original Budget | Amended Budget | Actual | Variance |
|---|--------------------|-------------------|------------|--------------|
| Total revenues | \$ 936,321 | \$ 936,321 | \$ 715,177 | \$ (221,144) |
| Total expenditures | 957,447 | 857,637 | 803,328 | 54,309 |
| Excess (deficiency) of revenues over expenditures | (21,126) | 78,684 | (88,151) | 166,835 |
| Other financing sources, net | (183,242) | (42,423) | 268,862 | 311,285 |
| Excess (deficiency) of revenues and net other financing sources over expenditures | \$ (204,368) | \$ 36,261 | \$ 180,711 | \$ 144,450 |

For fiscal year 2018, the General Fund realized a favorable budgetary variance of \$144.5 million mainly due to other financing sources of \$311.3 million and excess revenues over expenditures of \$166.8 million.

Other financing sources had a favorable variance mainly due to the issuance of the Series 2018A-1, 2018A-2, and 2018A-3 Community Disaster Loan bonds of \$188.5 million. The General Fund realized an unfavorable revenue variance of \$221.1 million mainly due to taxes revenues under budget by \$75.9 million, charges for services revenues being under budget by \$66.0 million and interest and other revenues being less than budget by \$100.4 million during the fiscal year. The General Fund realized a favorable expenditures variance of \$54.3 million due to spending efficiencies as compared to budgeted amounts. The amended expenditures budget decreased by \$99.8 million, due primarily to a decrease in general government of \$82.6 million.

Capital Assets

Capital assets additions during fiscal year 2018 amounted to \$129.5 million for governmental activities and \$4.5 million for business-type activities. Capital assets additions during fiscal year 2017 amounted to \$71.8 million for governmental activities and \$20.1 million for business-type activities.

Government of the United States Virgin Islands

Management's Discussion and Analysis

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

| September 30, | Governmental Activities | | Business-Type Activities | | Total | |
|----------------------------------|-------------------------|-------------------|--------------------------|-------------------|-------------------|-------------------|
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Land and improvements | \$ 237,515 | \$ 235,664 | \$ 5,526 | \$ 5,526 | \$ 243,041 | \$ 241,190 |
| Building and improvements | 434,918 | 405,244 | 89,060 | 88,341 | 523,978 | 493,585 |
| Machinery and equipment | 206,322 | 201,049 | 78,618 | 75,544 | 284,940 | 276,593 |
| Infrastructure | 151,348 | 140,786 | - | - | 151,348 | 140,786 |
| Intangible assets | - | - | 30,774 | 30,774 | 30,774 | 30,774 |
| Construction in progress | 154,427 | 76,003 | 5,332 | 4,844 | 159,759 | 80,847 |
| Total capital assets | 1,184,530 | 1,058,746 | 209,310 | 205,029 | 1,393,840 | 1,263,775 |
| Less accumulated depreciation | (439,476) | (415,531) | (81,711) | (72,102) | (521,187) | (487,633) |
| Total capital assets, net | \$ 745,054 | \$ 643,215 | \$ 127,599 | \$ 132,927 | \$ 872,653 | \$ 776,142 |

Note 9 provides detailed information regarding the capital assets of the primary government and the component units of the Government.

Debt Administration (General Obligation and Revenue Bonds)

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2018, (expressed in thousands):

| Bond Issue | Maturity | Rates (%) | Balance |
|--|-------------|-------------|---------------------|
| Series 2018 A-1, A-2 and A-3 Revenue Bonds | 2022 - 2037 | 2.86-3.19 | \$ 188,522 |
| Series 2015 Federal Highway Bonds | 2016 - 2033 | 3.00-5.00 | 78,610 |
| Series 2014 D Revenue Bonds | 2015 - 2033 | 6.03 | 5,235 |
| Series 2014 C Revenue and Refunding Bonds | 2015 - 2044 | 4.50-5.00 | 232,260 |
| Series 2014 A Revenue Bonds | 2015 - 2034 | 5.00 | 44,965 |
| Series 2013 B Revenue and Refunding Bonds | 2018 - 2024 | 3.00 - 5.00 | 41,045 |
| Series 2013 A Revenue and Refunding Bonds | 2018 - 2024 | 5.00 - 5.25 | 23,915 |
| Series 2012 C Revenue Bonds | 2017 - 2042 | 3.00 - 5.00 | 28,130 |
| Series 2012 A and B Revenue and Refunding Bonds | 2017 - 2032 | 2.25 - 5.25 | 168,540 |
| Series 2012 A Revenue Bonds | 2022 - 2032 | 4.00 - 5.00 | 139,265 |
| Series 2010 A and B Revenue Bonds | 2012 - 2029 | 4.00 - 5.25 | 385,655 |
| Series 2009 A Revenue Bonds (Cruzan) | 2010 - 2039 | 3.00 - 6.00 | 34,130 |
| Series 2009 A1, A2, B and C Revenue and Refunding Bonds | 2010 - 2039 | 3.00 - 5.00 | 256,825 |
| Series 2009 A Revenue Bonds (Diageo) | 2014 - 2037 | 6.00 - 6.75 | 226,970 |
| Series 2006 A Revenue Bonds | 2007 - 2029 | 3.50 - 5.00 | 193,230 |
| Series 2006 A, B, C and D Tobacco Turbo and Capital Appreciation Bonds | 2035 | 6.25 - 7.63 | 7,290 |
| Series 2001 A Tobacco Bonds | 2031 | 4.62 - 5.13 | 5,315 |
| Total bonds outstanding | | | 2,059,902 |
| Plus (less): | | | |
| Bonds premium | | | 45,924 |
| Bonds discount | | | (2,261) |
| Bonds accretion | | | 9,038 |
| Total bonds payable, net | | | \$ 2,112,603 |

Government of the United States Virgin Islands

Management's Discussion and Analysis

Note 10 provides detailed information regarding all bonds of the primary government.

The Government made bond principal payments on outstanding general and special revenue bonds amounting to \$77.4 million during fiscal year 2018 and \$75.2 million during fiscal year 2017.

In August 2017, Fitch Ratings downgraded the Government's Matching Fund Revenue and Gross Receipts Tax debt to B from BB-. In the same month, the Government stopped providing information to Standard & Poor's necessary to evaluate the Government's liquidity, and that rating agency withdrew its credit ratings for the Virgin Islands in October 2018. In January 2018, Moody's Investors Service downgraded the Government'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.

In December 2019, Standard & Poor's Global Ratings revised its outlook from negative to stable and affirmed its A rating on the outstanding Series 2015A grant anticipation bonds (GARVEE bonds).

In January 2020, Moody's affirmed the Territory's Caa3 issuer rating and stable outlook, as well as the Caa2 rating on Matching Fund Senior Lien Bonds, and Caa3 rating on other Matching Fund Bonds.

Other Liabilities of the Primary Government

Other long-term outstanding liabilities of the Government include the following (expressed in thousands):

| September 30, | 2018 | 2017 |
|---|------------|------------|
| Governmental activities: | | |
| Accrued compensated absences | \$ 36,762 | \$ 36,151 |
| Retroactive union arbitration | 195,286 | 195,286 |
| Litigation | 21,216 | 16,145 |
| Landfill closure and post closure costs | 102,135 | 97,923 |
| Business-type activities: | | |
| Workers compensation | 35,994 | 42,279 |
| Compensated absences | 1,976 | - |
| Loan payable - U.S. Treasury | 68,590 | 66,994 |
| Loan payable - WICO | 42,646 | 42,666 |
| Total other liabilities | \$ 504,605 | \$ 497,444 |

Net Pension Liabilities

The Government has implemented the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* and GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources.

Government of the United States Virgin Islands

Management's Discussion and Analysis

Following is the net pension liability reported in fiscal years 2018 and 2017 (expressed in thousands):

| September 30, | 2018 | 2017 |
|-----------------------|--------------|--------------|
| Net pension liability | \$ 3,354,768 | \$ 3,535,517 |

Net Other Postemployment Benefit (OPEB) Liabilities

Effective in fiscal year 2018, the Government implemented the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard requires the reporting and disclosure of costs and liabilities associated with postemployment benefits provided to retirees of the Government and ten (10) of the Government's component units under a special funding arrangement. Implementation of this standard required a restatement of the prior year net position of governmental activities, decreasing it by \$335.5 million. Additional details about the implementation of this standard are presented in Note 15 and Note 17.

Following is the total OPEB liability reported in fiscal years 2018 and 2017 (expressed in thousands):

| September 30, | 2018 | 2017 (As restated) |
|---|------------|-----------------------|
| Total other postemployment benefits liability | \$ 783,373 | \$ 812,955 |

Significant Currently Known Facts

The Government promotes fiscal sustainability through economic development, compliance initiatives, and budgetary restraints on expenditures. The Government is also working with non-governmental organizations and Federal partners as part of its recovery efforts following the 2017 hurricanes.

Revenue and Compliance Initiatives

The Government has implemented several initiatives to create jobs, stimulate economic growth and promote fiscal sustainability including: entering into an agreement with Limetree Bay Ventures for an investment of \$1.3 billion to reopen the HOVENSA oil refinery, continued promotion of tourism through national advertising, compliance initiatives to ensure voluntary tax filing requirements are met, and outreach to national and foreign investors. The Government continues to promote its high-tech broadband capabilities, educated workforce and tax incentive programs to management, technology, and tourism-related industries.

Federal Recovery Partners

Fiscal year 2018 was the first year of recovery following the 2017 hurricanes. The Government and its component units, working with Federal recovery partners, including FEMA and other agencies, completed essential debris removal and emergency projects needed to reestablish normal business and governmental operations in the Territory. In fiscal year 2019, the Territory established an Office of Disaster Recovery and worked with federal recovery partners including FEMA, HUD, FHWA and other agencies to establish a multi-year, multi-billion recovery plan building resiliency in managing climate change.

Government of the United States Virgin Islands

Management's Discussion and Analysis

Budgetary Control of Expenditures

The Government has experienced an increase in carry-forward liabilities from prior fiscal years mainly due to landfill closure costs, post-employment benefits for retirees, and net pension liabilities in connection with the Government's defined benefit pension plan.

The Government also has carry-forward liabilities due to unpaid retroactive salary increases that accumulated following Hurricanes Hugo, Marilyn, and Bertha in the years of 1990 through 1998. At September 30, 2018 and 2017, long-term liabilities for pension and other post-employment benefits to retired government employees amounted to \$4.1 billion and \$4.4 billion, respectively. The Government's defined benefit pension plan was 16.18% and 16.54% funded as of the measurement dates of September 30, 2018 and 2017, respectively.

Based on actuarial projections, the plan may not be able to meet its responsibilities by fiscal year 2023. A Pension Reform Joint Task Force has provided recommendations to the Legislature to (i) increase the retirement age of Government workers; (ii) restructure plan benefits; and (iii) to no longer allow retirees to both work and collect benefits from the Government. The retirement system increased the contribution rates of participating employers by 1.0% per year over the three fiscal years 2015, 2016 and 2017 and at September 30, 2018, the employer contribution rate was 20.5%. In December 2019, the employer rate was increased by 3.0% bringing the contribution rate to 23.5% effective January 1, 2020.

Coronavirus COVID-19 Pandemic

In December 2019, a novel strain of coronavirus, known as COVID-19, was reported which quickly spread around the globe, including the United States and its Territories. In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to COVID-19. The extent of the impact of COVID-19 on the operational and financial performance of the Government will depend on certain developments, including the duration and spread of the outbreak and the impact on the economy, employees, and vendors, all of which are uncertain and cannot be predicted.

In April 2020, the Virgin Islands was declared a major disaster area by the President of the United States of America. The Presidential declaration enables the Territory to receive Federal funding for emergency protective measures, including direct Federal assistance. Through May 2020, the Government and its blended and discretely presented component units have been awarded \$168.4 million in federal pandemic recovery assistance, including the Coronavirus Relief Fund.

Contacting the Government's Financial Management

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

Basic Financial Statements

Government of the United States Virgin Islands

Statement of Net Position

(in thousands)

| September 30, 2018 | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|---------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Assets | | | | |
| Cash and cash equivalents | \$ 264,214 | \$ 24,673 | \$ 288,887 | \$ 149,455 |
| Investments, at fair value | 627,719 | 1,661 | 629,380 | 39,679 |
| Receivables, net | 199,837 | 5,844 | 205,681 | 198,148 |
| Internal balances | 46,902 | (46,902) | - | - |
| Due from federal government | 34,762 | - | 34,762 | 72,698 |
| Due from component units | 96,816 | - | 96,816 | 88 |
| Due from primary government | - | - | - | 50,951 |
| Inventories | - | - | - | 28,909 |
| Prepayments and other assets | - | - | - | 19,139 |
| Restricted: | | | | |
| Cash and cash equivalents | - | 5,329 | 5,329 | 84,727 |
| Investments | - | - | - | 101,875 |
| Other | - | - | - | 19,675 |
| Capital assets, net | 745,054 | 127,599 | 872,653 | 1,552,795 |
| Notes receivable | - | - | - | 11,385 |
| Other assets | 7,213 | 1,131 | 8,344 | 56,100 |
| Total assets | 2,022,517 | 119,335 | 2,141,852 | 2,385,624 |
| Deferred Outflows of Resources | | | | |
| Deferred amounts related to pension | 785,551 | - | 785,551 | 244,983 |
| Deferred charges on bond refunding | 6,561 | - | 6,561 | 4,792 |
| Deferred amounts related to OPEB | - | - | - | 636 |
| Total deferred outflows of resources | 792,112 | - | 792,112 | 250,411 |
| Total assets and deferred outflows of resources | \$ 2,814,629 | \$ 119,335 | \$ 2,933,964 | \$ 2,636,035 |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Net Position

(in thousands)

| September 30, 2018 | Primary Government | | | Component Units |
|--|----------------------------|-----------------------------|-----------------------|---------------------|
| | Governmental Activities | Business-type Activities | Total | |
| Liabilities | | | | |
| Accounts payable and accrued liabilities | \$ 314,255 | \$ 6,776 | \$ 321,031 | \$ 654,179 |
| Tax refunds payable | 100,652 | - | 100,652 | - |
| Unemployment insurance benefits | - | 3,257 | 3,257 | - |
| Customer deposits | - | - | - | 29,469 |
| Due to primary government | - | - | - | 67,399 |
| Due to component units | 17,956 | - | 17,956 | 10,160 |
| Due to federal government | - | - | - | 4,142 |
| Interest payable | 47,057 | - | 47,057 | 7,894 |
| Unearned revenues | 251,750 | 10,068 | 261,818 | 24,554 |
| Other current liabilities: | | | | |
| Line of credit | - | - | - | 29,844 |
| Loans and notes payable | 10,020 | 69,410 | 79,430 | 4,909 |
| Bonds payable | 89,058 | - | 89,058 | 16,050 |
| Other liabilities | 14,616 | 5,181 | 19,797 | 29,200 |
| Noncurrent liabilities: | | | | |
| Loans and notes payable | 19,390 | 41,826 | 61,216 | 88,669 |
| Bonds payable | 2,023,545 | - | 2,023,545 | 368,671 |
| Net pension liability | 3,354,768 | - | 3,354,768 | 989,871 |
| Other postemployment benefits liability (OPEB) | 783,373 | - | 783,373 | 101,027 |
| Interest payable | 2,329 | - | 2,329 | - |
| Other liabilities | 340,783 | 32,789 | 373,572 | 166,279 |
| Total liabilities | 7,369,552 | 169,307 | 7,538,859 | 2,592,317 |
| Deferred Inflows of Resources | | | | |
| Deferred amounts related to OPEB | 45,088 | - | 45,088 | 11,046 |
| Deferred amounts related to pension | 239,282 | - | 239,282 | 127,244 |
| Total liabilities and deferred inflows of resources | \$ 7,653,922 | \$ 169,307 | \$ 7,823,229 | \$ 2,730,607 |
| Net Position (Deficit) | | | | |
| Net investment in capital assets | \$ 230,693 | \$ 48,148 | \$ 278,841 | \$ 1,113,222 |
| Restricted: | | | | |
| Unemployment insurance | - | 867 | 867 | - |
| Debt service | 282,327 | 3,957 | 286,284 | - |
| Capital projects | 258 | 505 | 763 | - |
| Other purposes | - | - | - | 157,848 |
| Unrestricted deficit | (5,352,571) | (103,449) | (5,456,020) | (1,365,642) |
| Total net deficit | \$ (4,839,293) | \$ (49,972) | \$ (4,889,265) | \$ (94,572) |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Activities

(in thousands)

| Year Ended September 30, 2018 | Program Revenues | | | | Net Revenue (Expense) and Changes in Net Position | | | Component Units |
|--|---------------------|-------------------------|--|--|--|-----------------------------|-----------------------|--------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-type Activities | Total | |
| Functions: | | | | | | | | |
| Primary government: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government | \$ 1,296,511 | \$ 19,154 | \$ 584,864 | \$ 68,246 | \$ (624,247) | \$ - | \$ (624,247) | \$ - |
| Public safety | 91,868 | 345 | 2,751 | - | (88,772) | - | (88,772) | - |
| Health | 71,568 | 467 | 15,985 | - | (55,116) | - | (55,116) | - |
| Public housing and welfare | 284,087 | 437 | 191,587 | - | (92,063) | - | (92,063) | - |
| Education | 215,405 | - | 23,109 | - | (192,296) | - | (192,296) | - |
| Transportation and communication | 48,032 | 282 | 21,986 | 4,705 | (21,059) | - | (21,059) | - |
| Culture and recreation | 6,893 | 172 | - | - | (6,721) | - | (6,721) | - |
| Interest on long-term debt | 102,613 | - | - | - | (102,613) | - | (102,613) | - |
| Total governmental activities | 2,116,977 | 20,857 | 840,282 | 72,951 | (1,182,887) | - | (1,182,887) | - |
| Business-type activities: | | | | | | | | |
| WICO | 12,449 | 7,165 | 500 | - | - | (4,784) | (4,784) | - |
| Unemployment insurance | 43,166 | 12,147 | 16,891 | - | - | (14,128) | (14,128) | - |
| viNGN | 9,806 | 3,651 | 350 | - | - | (5,805) | (5,805) | - |
| Other | 33,681 | 35,788 | - | - | - | 2,107 | 2,107 | - |
| Total business-type activities | 99,102 | 58,751 | 17,741 | - | - | (22,610) | (22,610) | - |
| Total primary government | \$ 2,216,079 | \$ 79,608 | \$ 858,023 | \$ 72,951 | \$ (1,182,887) | \$ (22,610) | \$ (1,205,497) | \$ - |
| Component units: | | | | | | | | |
| Virgin Islands Housing Authority | \$ 55,488 | \$ 6,898 | \$ 38,538 | \$ 2,496 | \$ - | \$ - | \$ - | \$ (7,556) |
| Virgin Islands Port Authority | 86,061 | 40,825 | - | 9,726 | - | - | - | (35,510) |
| Virgin Islands Water and Power Authority: | | | | | | | | |
| Electric System | 295,344 | 133,656 | - | 414,194 | - | - | - | 252,506 |
| Water System | 30,513 | 24,769 | - | 1,303 | - | - | - | (4,441) |
| Virgin Islands Government Hospital and Health Facilities Corporation: | | | | | | | | |
| Roy L. Schneider Hospital | 73,184 | 37,971 | 22,834 | 2,385 | - | - | - | (9,994) |
| Juan F. Luis Hospital | 66,119 | 20,887 | 20,635 | 119 | - | - | - | (24,478) |
| University of the Virgin Islands | 80,896 | 44,483 | 21,470 | 4,992 | - | - | - | (9,951) |
| Other component units | 311,753 | 42,419 | 247,660 | 2,718 | - | - | - | (18,956) |
| Total component units | \$ 999,358 | \$ 351,908 | \$ 351,137 | \$ 437,933 | \$ - | \$ - | \$ - | \$ 141,620 |
| Total primary government and component units | | | | | \$ (1,182,887) | \$ (22,610) | \$ (1,205,497) | \$ 141,620 |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Activities

(in thousands)

| Year Ended September 30, 2018 | Net Revenue (Expense) and Changes in Net Position | | | Component Units |
|---|--|-----------------------------|----------------|--------------------|
| | Primary Government | | | |
| | Governmental Activities | Business-type Activities | Total | |
| General revenue: | | | | |
| Taxes | \$ 934,577 | \$ - | \$ 934,577 | \$ - |
| Payment in lieu of taxes | 11,141 | - | 11,141 | - |
| Interest and other | 57,654 | 8,714 | 66,368 | 21,266 |
| Tobacco settlement rights | 1,094 | - | 1,094 | - |
| Special item - insurance recoveries (impairment loss) on capital assets, net | 119,240 | 4,756 | 123,996 | (45,539) |
| Transfers - internal activities of primary government | (1,000) | 1,000 | - | - |
| Total general revenue and other items | 1,122,706 | 14,470 | 1,137,176 | (24,273) |
| Changes in net position (deficit) | (60,181) | (8,140) | (68,321) | 117,347 |
| Net position (deficit), beginning of year, as restated | (4,779,112) | (41,832) | (4,820,944) | (211,919) |
| Net deficit, end of year | \$ (4,839,293) | \$ (49,972) | \$ (4,889,265) | \$ (94,572) |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Balance Sheet - Governmental Funds

(in thousands)

| September 30, 2018 | General | PFA Debt Service | PFA Capital Projects | Federal Grants | Other Governmental | Total Governmental |
|--|-------------------|------------------------|----------------------------|-------------------|-----------------------|-----------------------|
| Assets | | | | | | |
| Cash and cash equivalents | \$ 57,887 | \$ 13,488 | \$ 22,326 | \$ - | \$ 170,513 | \$ 264,214 |
| Investments, at fair value | 164,909 | 359,946 | 97,766 | - | 5,098 | 627,719 |
| Receivables: | | | | | | |
| Taxes, net | 157,969 | 40,841 | - | - | - | 198,810 |
| Other | 38 | - | - | - | 122 | 160 |
| Due from federal government | - | - | - | 34,762 | - | 34,762 |
| Due from: | | | | | | |
| Other funds | 35,598 | - | 37,129 | - | 38,336 | 111,063 |
| Component units, net | 65,959 | - | - | - | 30,857 | 96,816 |
| Total assets | \$ 482,360 | \$ 414,275 | \$ 157,221 | \$ 34,762 | \$ 244,926 | \$ 1,333,544 |
| Liabilities | | | | | | |
| Accounts payable and accrued liabilities | \$ 123,803 | \$ - | \$ 1,302 | \$ 122,944 | \$ 66,206 | \$ 314,255 |
| Tax refunds payable | 100,652 | - | - | - | - | 100,652 |
| Unearned revenues | 139,746 | 108,504 | - | - | 3,500 | 251,750 |
| Due to: | | | | | | |
| Other funds | 36,161 | - | - | - | 28,000 | 64,161 |
| Component units | 15,904 | - | 2,048 | - | 4 | 17,956 |
| Total liabilities | 416,266 | 108,504 | 3,350 | 122,944 | 97,710 | 748,774 |
| Deferred Inflows of Resources | | | | | | |
| Unavailable revenues | 106,852 | 23,444 | - | - | - | 130,296 |
| Total liabilities and deferred inflows of resources | 523,118 | 131,948 | 3,350 | 122,944 | 97,710 | 879,070 |
| Fund balances (deficit) | | | | | | |
| Restricted | - | 282,327 | 153,871 | - | 38,564 | 474,762 |
| Committed | 30,669 | - | - | - | 92,296 | 122,965 |
| Assigned | 1,001 | - | - | - | 82,548 | 83,549 |
| Unassigned | (72,428) | - | - | (88,182) | (66,192) | (226,802) |
| Total fund balances (deficit) | (40,758) | 282,327 | 153,871 | (88,182) | 147,216 | 454,474 |
| Total liabilities, deferred inflows of resources and fund balances (deficit) | \$ 482,360 | \$ 414,275 | \$ 157,221 | \$ 34,762 | \$ 244,926 | |
| Amounts reported for governmental activities in the statement of net position are different because: | | | | | | |
| Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds. | | | | | | 745,054 |
| Expenditures identified as related to a future period are recognized as a prepaid asset in the statement of net position. | | | | | | 7,213 |
| Deferred costs of refunding bonds are not financial resources and are therefore, not reported in the funds. | | | | | | 6,561 |
| Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and therefore, are deferred in the funds. | | | | | | 131,163 |
| Deferred outflows and inflows of resources of pension and postemployment benefit liabilities are not current financial resources and therefore, are not included in the funds. | | | | | | 501,181 |
| Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due. | | | | | | (49,386) |
| Long-term pension liabilities are not due and payable in the current period and therefore, are not reported in the funds. | | | | | | (3,354,768) |
| Long-term postemployment benefit liabilities are not due and payable in the current period and therefore, are not reported in the funds. | | | | | | (783,373) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds. | | | | | | (2,497,412) |
| Net deficit of governmental activities | | | | | | \$ (4,839,293) |

See accompanying notes to financial statements

Government of the United States Virgin Islands
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
(in thousands)

| <i>Year Ended September 30, 2018</i> | General | PFA Debt Service | PFA Capital Projects | Federal Grants | Other Governmental | Total Governmental |
|---|--------------------|------------------------|----------------------------|--------------------|-----------------------|-----------------------|
| Revenues | | | | | | |
| Taxes | \$ 646,875 | \$ 271,231 | \$ 754 | \$ - | \$ 16,571 | \$ 935,431 |
| Payment in lieu of taxes | 11,141 | - | - | - | - | 11,141 |
| Federal grants and contributions | 9,940 | 7,574 | - | 873,651 | 22,068 | 913,233 |
| Charges for services | 9,432 | - | - | - | 11,425 | 20,857 |
| Tobacco settlement rights | - | - | - | - | 904 | 904 |
| Interest and other | 23,865 | 4,691 | 2,303 | - | 26,795 | 57,654 |
| Total revenues | 701,253 | 283,496 | 3,057 | 873,651 | 77,763 | 1,939,220 |
| Expenditures | | | | | | |
| Current: | | | | | | |
| General government | 435,497 | 227 | 2,184 | 608,391 | 61,258 | 1,107,557 |
| Public safety | 73,632 | - | - | 4,353 | 814 | 78,799 |
| Health | 24,229 | - | - | 34,106 | 2,181 | 60,516 |
| Public housing and welfare | 56,590 | - | - | 186,838 | 5,204 | 248,632 |
| Education | 159,457 | - | - | 22,475 | 3,594 | 185,526 |
| Transportation and communication | 17,573 | - | - | 1,875 | 16,116 | 35,564 |
| Culture and recreation | 5,246 | - | - | - | 517 | 5,763 |
| Capital outlays | 1,527 | - | 9,042 | 69,168 | 49,852 | 129,589 |
| Debt service: | | | | | | |
| Principal | 17,492 | 80,979 | 853 | - | 865 | 100,189 |
| Interest | 1,060 | 100,099 | 16 | - | 309 | 101,484 |
| Loan issuance costs | 1,733 | - | - | - | - | 1,733 |
| Total expenditures | 794,036 | 181,305 | 12,095 | 927,206 | 140,710 | 2,055,352 |
| Excess (deficiency) of revenue over expenditures | (92,783) | 102,191 | (9,038) | (53,555) | (62,947) | (116,132) |
| Other financing sources (uses) | | | | | | |
| Bonds issued | 188,522 | - | - | - | - | 188,522 |
| Insurance recoveries | - | - | - | - | 120,265 | 120,265 |
| Transfers from other funds | 88,412 | 8,520 | 36 | 2,643 | 7,755 | 107,366 |
| Transfers to other funds | (17,068) | (88,448) | (207) | - | (2,643) | (108,366) |
| Total other financing sources (uses), net | 259,866 | (79,928) | (171) | 2,643 | 125,377 | 307,787 |
| Net change in fund balances | 167,083 | 22,263 | (9,209) | (50,912) | 62,430 | 191,655 |
| Fund balances (deficit), beginning of year | (207,841) | 260,064 | 163,080 | (37,270) | 84,786 | 262,819 |
| Fund balances (deficit), end of year | \$ (40,758) | \$ 282,327 | \$ 153,871 | \$ (88,182) | \$ 147,216 | \$ 454,474 |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

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

(in thousands)

Year Ended September 30, 2018

| | |
|--|-------------|
| Net change in fund balances - total governmental funds | \$ 191,655 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation, impairment loss, and disposals in the current year. | 101,839 |
| Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds. | (664) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This is the amount by which bond proceeds of \$188.5 million exceed debt repayments of \$100.2 million. | (88,333) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net position of the previous year increased expenses reported in the statement of activities that do not require the use of current financial resources. | (9,892) |
| Some expenses reported as prepaid assets in the statement of net position in the current year are recognized as expenses in the following year in the statement of activities. | 2,634 |
| Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts, deferred refunding, and accreted interest on capital appreciation bonds during the current year. | 3,702 |
| Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in interest payable reported in the statement of net position. | (296) |
| Certain OPEB expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in OPEB liabilities for the allocable share of OPEB expense reported in statement of net position. | (15,507) |
| Certain pension expense reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in pension liabilities for the allocable share of pension expense reported in statement of net position. | (245,319) |
| Change in net deficit of governmental activities | \$ (60,181) |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

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

| Year Ended September 30, 2018 | Business-type Activities | | | | Total |
|---|--------------------------|---------------------------|------------------|---------------------|--------------------|
| | WICO | Unemployment Insurance | viINGN | Other Enterprise | |
| Operating revenues | | | | | |
| Charges for services | \$ 7,165 | \$ 12,147 | \$ 3,651 | \$ 35,788 | \$ 58,751 |
| Operating expenses | | | | | |
| Cost of services | 6,218 | 43,166 | 4,726 | 32,271 | 86,381 |
| Depreciation and amortization | 3,248 | - | 5,080 | 1,410 | 9,738 |
| Total operating expenses | 9,466 | 43,166 | 9,806 | 33,681 | 96,119 |
| Operating (loss) income | (2,301) | (31,019) | (6,155) | 2,107 | (37,368) |
| Non-operating revenues (expenses) | | | | | |
| Grants revenue | 500 | 16,891 | 350 | - | 17,741 |
| Interest and other income | 213 | 36 | 8 | 8,457 | 8,714 |
| Payment in lieu of taxes | (700) | - | - | - | (700) |
| Interest expense | (2,283) | - | - | - | (2,283) |
| Total non-operating (expenses) revenues, net | (2,270) | 16,927 | 358 | 8,457 | 23,472 |
| (Loss) income before operating transfers and special item | (4,571) | (14,092) | (5,797) | 10,564 | (13,896) |
| Transfers from other funds | - | - | - | 1,000 | 1,000 |
| Insurance recoveries | 2,133 | - | 2,500 | 123 | 4,756 |
| Change in net position | (2,438) | (14,092) | (3,297) | 11,687 | (8,140) |
| Net position (deficit), beginning of year, as restated | 3,676 | (54,071) | 35,932 | (27,369) | (41,832) |
| Net position (deficit), end of year | \$ 1,238 | \$ (68,163) | \$ 32,635 | \$ (15,682) | \$ (49,972) |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Net Position - Proprietary Funds

(in thousands)

| September 30, 2018 | Business-type Activities | | | | Total |
|--|--------------------------|---------------------------|------------------|---------------------|--------------------|
| | WICO | Unemployment Insurance | viNGN | Other Enterprise | |
| Assets | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 1,039 | \$ 1,540 | \$ 1,881 | \$ 20,213 | \$ 24,673 |
| Restricted cash | 4,462 | - | - | - | 4,462 |
| Investments, at fair value | - | - | - | 1,661 | 1,661 |
| Receivables, net: | | | | | |
| Grants receivable | 500 | - | 350 | - | 850 |
| Premiums receivable | - | 1,277 | - | - | 1,277 |
| Other receivables | 667 | - | 994 | 968 | 2,629 |
| Due from other funds | - | - | - | 300 | 300 |
| Other assets | 738 | - | 320 | 73 | 1,131 |
| Total current assets | 7,406 | 2,817 | 3,545 | 23,215 | 36,983 |
| Noncurrent assets: | | | | | |
| Restricted cash and cash equivalents | - | 867 | - | - | 867 |
| Other noncurrent receivables | 1,088 | - | - | - | 1,088 |
| Capital assets | 45,454 | - | 67,002 | 15,143 | 127,599 |
| Total noncurrent assets | 46,542 | 867 | 67,002 | 15,143 | 129,554 |
| Total assets | \$ 53,948 | \$ 3,684 | \$ 70,547 | \$ 38,358 | \$ 166,537 |
| Liabilities | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | \$ 738 | \$ - | \$ 1,108 | \$ 4,930 | \$ 6,776 |
| Due to other funds | 7,350 | - | 36,804 | 3,048 | 47,202 |
| Unemployment insurance benefits | - | 3,257 | - | - | 3,257 |
| Workers compensation | - | - | - | 5,005 | 5,005 |
| Loan payable to U.S. Treasury | - | 68,590 | - | - | 68,590 |
| Unearned revenue | - | - | - | 10,068 | 10,068 |
| Compensated absences payable | 176 | - | - | - | 176 |
| Loans payable related to capital assets | 820 | - | - | - | 820 |
| Total current liabilities | 9,084 | 71,847 | 37,912 | 23,051 | 141,894 |
| Noncurrent liabilities: | | | | | |
| Workers compensation | - | - | - | 30,989 | 30,989 |
| Compensated absences payable | 1,800 | - | - | - | 1,800 |
| Loans payable related to capital assets | 41,826 | - | - | - | 41,826 |
| Total noncurrent liabilities | 43,626 | - | - | 30,989 | 74,615 |
| Total liabilities | \$ 52,710 | \$ 71,847 | \$ 37,912 | \$ 54,040 | \$ 216,509 |
| Net Position (Deficit) | | | | | |
| Net investment in capital assets | \$ 2,807 | \$ - | \$ 30,198 | \$ 15,143 | \$ 48,148 |
| Restricted: | | | | | |
| Unemployment insurance | - | 867 | - | - | 867 |
| Debt service | 3,957 | - | - | - | 3,957 |
| Capital projects | 505 | - | - | - | 505 |
| Unrestricted (deficit) | (6,031) | (69,030) | 2,437 | (30,825) | (103,449) |
| Total net position (deficit) | \$ 1,238 | \$ (68,163) | \$ 32,635 | \$ (15,682) | \$ (49,972) |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

(in thousands)

| Year Ended September 30, 2018 | Business-type Activities | | | | Total |
|--|--------------------------|---------------------------|------------|---------------------|-------------|
| | WICO | Unemployment Insurance | viNGN | Other Enterprise | |
| Cash flows from operating activities | | | | | |
| Cash received from customers and users | \$ 7,617 | \$ 19,157 | \$ 3,177 | \$ 34,868 | \$ 64,819 |
| Cash paid to beneficiaries and suppliers | (3,434) | - | (1,918) | - | (5,352) |
| Cash paid to employees | (2,655) | (43,166) | (2,324) | (35,794) | (83,939) |
| Net cash provided by (used in) operating activities | 1,528 | (24,009) | (1,065) | (926) | (24,472) |
| Cash flows from noncapital financing activities | | | | | |
| Other income | - | 36 | - | 8,457 | 8,493 |
| Transfer from other funds | - | - | - | 1,000 | 1,000 |
| Federal grants | - | 16,891 | - | - | 16,891 |
| Payment in lieu of taxes | (700) | - | - | - | (700) |
| Issuance of debt | - | 15,646 | - | - | 15,646 |
| Principal paid on debt issuances, including interest | - | (14,050) | - | - | (14,050) |
| Net cash provided by noncapital financing activities | (700) | 18,523 | - | 9,457 | 27,280 |
| Cash flows from capital and related financing activities | | | | | |
| Acquisition and construction of capital assets | (493) | - | (3,250) | (755) | (4,498) |
| Proceeds from sale of capital assets | 31 | - | - | 96 | 127 |
| Proceeds from insurance recoveries | 2,133 | - | 2,500 | 123 | 4,756 |
| Proceeds from loan issuance | 566 | - | - | - | 566 |
| Principal payments on loan payable | (586) | - | - | - | (586) |
| Interest paid | (2,283) | - | - | - | (2,283) |
| Net cash used in capital and related financing activities | (632) | - | (750) | (536) | (1,918) |
| Cash flows from investing activities | | | | | |
| Interest income | 10 | - | 9 | - | 19 |
| Purchase of investments | - | - | - | (6) | (6) |
| Net cash provided by (used in) investing activities | 10 | - | 9 | (6) | 13 |
| Net increase (decrease) in cash and cash equivalents | 206 | (5,486) | (1,806) | 7,989 | 903 |
| Cash and cash equivalents, beginning of year | 5,295 | 7,893 | 3,687 | 12,224 | 29,099 |
| Cash and cash equivalents, end of year | \$ 5,501 | \$ 2,407 | \$ 1,881 | \$ 20,213 | \$ 30,002 |
| Reconciliation of operating (loss) income to net cash provided by (used in) operating activities | | | | | |
| Operating (loss) income | \$ (2,301) | \$ (31,019) | \$ (6,155) | \$ 2,107 | \$ (37,368) |
| Adjustments to reconcile operating (loss) income to net cash provided by (used in) operating activities: | | | | | |
| Depreciation and amortization | 3,248 | - | 5,080 | 1,410 | 9,738 |
| Other income | 171 | - | - | - | 171 |
| Provision for doubtful accounts | 41 | - | - | - | 41 |
| Change in operating assets and liabilities: | | | | | |
| Receivables, net | 261 | 7,010 | (474) | (593) | 6,204 |
| Unearned revenue | - | - | - | (327) | (327) |
| Other assets | (207) | - | 51 | (10) | (166) |
| Accounts payable and accrued liabilities | 156 | - | 433 | 499 | 1,088 |
| Compensated absences payable | 159 | - | - | - | 159 |
| Workers compensation | - | - | - | (4,468) | (4,468) |
| Due to other funds | - | - | - | 456 | 456 |
| Net cash provided by (used in) operating activities | \$ 1,528 | \$ (24,009) | \$ (1,065) | \$ (926) | \$ (24,472) |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

(in thousands)

| Year Ended September 30, 2018 | Business-type Activities | | | | Total |
|---|--------------------------|---------------------------|-----------------|---------------------|------------------|
| | WICO | Unemployment Insurance | viNGN | Other Enterprise | |
| Reconciliation of cash and cash equivalents to the statement of net position | | | | | |
| Cash and cash equivalents - current | \$ 1,039 | \$ 1,540 | \$ 1,881 | \$ 20,213 | \$ 24,673 |
| Cash and cash equivalents - restricted | 4,462 | 867 | - | - | 5,329 |
| Total cash and cash equivalents, end of year | \$ 5,501 | \$ 2,407 | \$ 1,881 | \$ 20,213 | \$ 30,002 |

See accompanying notes to financial statements.

Government of the United States Virgin Islands
Statement of Fiduciary Net Position
(in thousands)

| <i>September 30, 2018</i> | Pension Trust | Agency |
|--|-------------------|------------------|
| Assets | | |
| Cash and cash equivalents: | | |
| Unrestricted | \$ 162,830 | \$ 14,224 |
| Restricted | 18 | - |
| Investments, at fair value: | | |
| Certificate of deposits | - | 11,562 |
| Cash collateral received under securities lending transactions | 1,231 | - |
| U.S. Government and agency obligations | 18,094 | - |
| Corporate obligations | 22,943 | - |
| Common stock - U.S. | - | - |
| Mortgage and asset backed securities | 29,282 | - |
| Commingled and mutual funds | 371,186 | - |
| Unsettled securities sold | - | - |
| Investment loans | 23,987 | - |
| Real estate investment trust | - | - |
| Limited partnerships | 16,334 | - |
| Real estate | 79,148 | - |
| Receivables, net: | | |
| Loans and advances | 74,181 | - |
| Accrued interest | 1,677 | - |
| Other | - | 23,787 |
| Other assets | 12,590 | - |
| Total assets | \$ 813,501 | \$ 49,573 |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ - | \$ 49,573 |
| Benefits in process of payment | 3,903 | - |
| Unsettled securities purchased | - | - |
| Securities lending collateral | 1,231 | - |
| Other liabilities | 39,547 | - |
| Total liabilities | 44,681 | 49,573 |
| Net position restricted for pension benefits | \$ 768,820 | \$ - |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Position

(in thousands)

| <i>Year Ended September 30, 2018</i> | Pension Trust |
|---|--------------------------|
| Additions | |
| Contributions: | |
| Employer | \$ 96,748 |
| Plan members | 44,482 |
| Total contributions | 141,230 |
| Investment income: | |
| Net appreciation of fair value of investments | 37,035 |
| Interest, dividends, and other, net | 17,684 |
| Real estate - net rental loss | 613 |
| Total investment income | 55,332 |
| Less investment expense | 1,255 |
| Investment income, net | 54,077 |
| Other income | 7,880 |
| Total additions | 203,187 |
| Deductions | |
| Benefits paid | 253,919 |
| Refunds of contributions | 11,412 |
| Administrative and operational expenses | 14,506 |
| Total deductions | 279,837 |
| Change in net position | (76,650) |
| Net position restricted for pension benefits, beginning of year | 845,470 |
| Net position restricted for pension benefits, end of year | \$ 768,820 |

See accompanying notes to financial statements.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

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

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

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

Financial Reporting Entity

For financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable and organizations for which the nature and significance of their relationship with the PG are such that exclusion would cause the reporting entity's financial statements to be misleading. The criteria used to define financial accountability include: (i) if an organization is fiscally dependent on, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the PG, (ii) a government board appointed by a higher level of government, or (iii) a jointly appointed board.

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

(a) Blended Component Units

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

Virgin Islands Public Finance Authority (PFA)

PFA was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, *the Government Capital Improvement Act of 1988*, with the purpose of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, PFA has the power, among other matters, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government or any governmental instrumentality.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

The powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the Legislature (the Legislature). PFA activities are blended within the PG and are reported as major funds, except for PFA Special Revenue Fund.

PFA's blended component units, The West Indian Company Limited (WICO) and viNGN, INC. d/b/a Virgin Islands Next Generation Network (viNGN) are presented as major proprietary funds while King's Alley Management, Inc. and Lonesome Dove Petroleum, Inc. are included in other nonmajor proprietary funds in the Government's basic financial statements.

Tobacco Settlement Financing Corporation (TSFC)

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

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

Administrative Offices of Blended Component Units

Virgin Islands Public Finance Authority
5033 Kongens Gade, Government Hill
St. Thomas, VI 00802

Tobacco Settlement Financing Corporation
5033 Kongens Gade, Government Hill
St. Thomas, VI 00802

(b) Discretely Presented Component Units

The following component units, as required by GAAP are discretely presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will.

The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

(c) Major Component Units

Virgin Islands Housing Authority (VIHA)

VIHA was created as a public corporation and autonomous governmental instrumentality by Act No. 903 on June 18, 1962, with the purpose of providing housing for low and moderate-income families residing in the U.S. Virgin Islands. The majority of VIHA funding is through two contractual agreements with Housing and Urban Development (HUD). VIHA is required to make payments in lieu of taxes to the PG when residual receipts are available, and whereby the PG agrees to provide municipal services and continue the tax-exempt status of VIHA projects. VIHA is governed by a board of commissioners. The governing board is autonomous and responsible to HUD. An executive director is appointed by VIHA's Board to manage the day-to-day operations.

Virgin Islands Port Authority (VIPA)

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

Virgin Islands Water and Power Authority (WAPA)

WAPA was created as a public corporation and autonomous governmental instrumentality by Act No. 1248 on August 13, 1964, with the purpose of operating the water production and electric generation plants in the U.S. Virgin Islands. The powers of WAPA are exercised by a governing board consisting of nine members, all appointed by the Governor with the advice and consent of the Legislature, from which three are heads of cabinet-level executive departments or agencies and six other persons, who are nominated by the Legislature. WAPA is required by its bond resolutions to maintain separate audited financial statements for each system (the Electric and Water Systems).

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

VIGHHFC was created by Act No. 6012 on August 23, 1994 and became active on May 1, 1999, with the purpose of providing healthcare services and hospital facilities to the people of the U. S. Virgin Islands. The powers of VIGHHFC are exercised by a board of directors consisting of 15 members as follows: the Director of the Office of Management and Budget, the Commissioner of Finance, and 13 other members appointed by the Governor with the advice and consent of the Legislature. The VIGHHFC is composed of the Schneider Regional Medical Center located in St. Thomas, the Governor Juan F. Luis Hospital and Medical Center located in St. Croix, and the Schneider Regional Medical Center Foundation (the Foundation). The hospitals issue separately audited financial statements.

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Notes to Basic Financial Statements

The Schneider Regional Medical Center's financial statements include its component units: the Myra Keating Smith Community Health Center (Health Center) of St. John and the Charlotte Kimelman Cancer Institute (Cancer Institute) on St. Thomas. The Cancer Institute has remained closed following the 2017 hurricanes. The Health Center and Cancer Institute are legally separate organizations for which the Roy L. Schneider Hospital is financially accountable. The Foundation is a legally separate nonprofit corporation for which the Schneider Regional Medical Center is financially accountable. The Juan F. Luis Hospital and Medical Center's financial statements include its component unit: Virgin Islands Cardiac Center at the Governor Juan F. Luis Hospital and Medical Center Foundation, Inc. (VICC Foundation). VICC Foundation is a legally separate nonprofit corporation for which the Juan F. Luis Hospital and Medical Center is financially accountable.

University of the Virgin Islands (the University)

The University was organized as an instrumentality of the Government under Act No. 852 on March 16, 1962, in accordance with Section 16(a) of the Revised Organic Act of 1954, as amended. The University is a higher education institution that offers four-year liberal arts degree and master's degree programs and associates degrees in arts and occupational programs. The powers of the University are exercised by a board of trustees consisting of 17 members as follows: Chairman of the Board of Education, Commissioner of Education, and the President of the University, all serving as members ex-officio, 9 other members appointed by the Governor with the advice and consent of the Legislature, two other members elected by the board of trustees, one representative of the student body, one alumnus of the University, and another representative of the teaching faculty. The University was not organized as a self-sustaining entity and therefore receives financial and other support from the Government.

The University's financial statements include a blended and discretely presented component unit. The Foundation for the University of the Virgin Islands is the blended component unit. This organization operates as a nonprofit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Foundation for the Reichhold Center for the Arts is a discretely presented component unit that supports the arts and provides financial assistance in operating an entertainment complex on the St. Thomas campus of the University.

(d) Other Component Units (Nonmajor)

Virgin Islands Economic Development Authority (EDA)

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

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Magens Bay Authority (MBA)

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

Virgin Islands Housing Finance Authority (VIHFA)

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

Virgin Islands Public Broadcasting System (VIPBS)

VIPBS was created as a public corporation and autonomous instrumentality by Act No. 2364 on November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of the population of the U.S. Virgin Islands as well as to provide an effective supplement to the in-school education of children.

The powers of VIPBS are exercised by a board of directors consisting of the Commissioner of Education, the Chairman of the Board of Education, three members appointed by the President of the Legislature, and four members, not more than two of whom should be employed by the Government and appointed by the Governor with the advice and consent of the Legislature.

In addition, the Director of the Office of Management and Budget, the President of the University of the Virgin Islands, and the General Manager of VIPBS are ex-officio members of the board who are not entitled to vote.

Virgin Islands Waste Management Authority (VIWMA)

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

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Notes to Basic Financial Statements

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

RTPark was established as an autonomous instrumentality of the Government by Act 6502 on February 21, 2002, as amended, by Act 6725, the Protected Cell Amendments Act of 2005. RTPark was organized for internet commerce and technology, providing an enabling environment for research, development, business incubation and technology-driven businesses.

RTPark is governed by a Board of Directors consisting of seven members, including the Chairman of the Board of Trustees of the University, the President of the University, two trustees selected from among the Board of Trustees of the University, and three members selected by the Governor.

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

Administrative Offices

Virgin Islands Housing Authority
9900 Oswald Harris Court
St. Thomas, VI 00802

Virgin Islands Port Authority
P.O. Box 301707
St. Thomas, VI 00803-1707

Virgin Islands Water and Power Authority
P.O. Box 1450
St. Thomas, VI 00804-1450

Virgin Islands Government Hospital and Health Facilities Corporation
9048 Sugar Estate, 2nd floor
St. Thomas, VI 00802

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

Virgin Islands Economic Development Authority
8000 Nisky Shopping Center, Suite 620
St. Thomas, VI 00802

Magens Bay Authority
P.O. Box 10583
St. Thomas, VI 00801

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

Government of the United States Virgin Islands

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Virgin Islands Public Broadcasting System
P.O. Box 7879
St. Thomas, VI 00801

Virgin Islands Waste Management Authority
1 A&B Demarara
St. Thomas, VI, 00802

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

All financial statements of the discretely presented component units have a fiscal year end of September 30, 2018, except for WAPA and VIHA which have a fiscal year-end of June 30, 2018 and December 31, 2017, respectively.

(e) Fiduciary Component Unit

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

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

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

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

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

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

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Notes to Basic Financial Statements

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net position and the statement of activities) report information on all the non-fiduciary activities of the PG and its component units. The effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net position presents the reporting entities' non-fiduciary assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items are not included among program revenues and are appropriately reported instead, as general revenue.

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP as prescribed by the GASB. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when eligibility requirements have been met.

(b) Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are deemed available when they become susceptible to accrual and are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, real property taxes, and income taxes are deemed available if collected within 30, 60, and 90 days, respectively, after the end of the current fiscal year-end.

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Grant revenue is deemed available if collected within the 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences, debt service, other postemployment benefits and pension expenditures are recorded only when payment is due.

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

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

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

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fund Accounting

The Government reports its financial position and results of operations in funds, which are considered separate accounting entities. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. Generally accepted governmental accounting principles establish criteria (percentage of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Indirect costs are automatically allocated and reported in the program expense for each fund. Non-major funds are combined in a single column in the fund financial statements. The Government reports the following major funds:

(a) Governmental Funds

The Government reports the following major governmental funds:

- General Fund - The general fund is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- PFA Debt Service Fund - PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government.

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- PFA Capital Projects Fund - PFA capital projects fund accounts for bond proceeds of debt issued by PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.
- Federal Grants Fund - The federal grants fund accounts for proceeds and payments that are restricted to expenditures for specified purposes.

(b) Proprietary Funds

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

- The West Indian Company Limited - WICO, a blended component unit of PFA, accounts for the activities of a cruise ship pier and shopping mall complex on the island of St. Thomas.
- Unemployment Insurance Fund - The unemployment insurance fund accounts for the collection of unemployment premiums from employers in the U.S. Virgin Islands, and the payment of unemployment benefits to eligible unemployed recipients.
- viNGN, INC. d/b/a as Virgin Islands Next Generation Network (viNGN) - viNGN, a blended component unit of PFA, accounts for the management of a middle mile wholesale fiber optic network providing reliable high-speed internet access to retail internet service providers and public infrastructure stewards.

(c) Fiduciary Funds

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

- Pension Trust Fund - The pension trust fund accounts for the activities of GERS, an independent and separate agency of the Government, responsible for the proper operation of the Government's defined benefit pension plan.
- Agency Fund - The agency fund is custodial in nature and does not involve measurement of the results of operations.

Cash and Cash Equivalents

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

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Cash equivalents of the proprietary funds and discretely presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, money market funds, short-term U.S. government and its agencies' obligations, and repurchase agreements with a U.S. commercial bank maturing within three months. Cash and cash equivalents of the discretely presented component units are maintained in separate bank accounts from those of the PG, in their own names.

By law, banks, or trust companies designated as depositories of public funds of the Government are to maintain corporate surety bonds or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited. The Government maintains an irrevocable stand-by letter of credit in the amount of \$375.0 million with the Federal Home Loan Bank of New York to serve as pledged collateral for public fund depositories held at Banco Popular de Puerto Rico.

For the purpose of the statement of cash flows, cash and cash equivalents are defined to be cash on hand, demand deposits, restricted cash and investments, and highly liquid investments with a maturity of three months or less from the date of purchase. For financial statement presentation purposes, cash and cash equivalents are shown as cash and investments and restricted cash and investments.

Investments

The PG and its component units follow the provisions of GAAP which establishes and modifies the following disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

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

- *Primary Government Investment Policies* - Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations.

As of September 30, 2018, the General Fund, the Virgin Islands Lottery, a nonmajor enterprise fund, and an agency fund had invested in certificates of deposit with two local banks. Investments are reported at fair value at September 30, 2018.

- *PFA Investment Policies* - Investments of PFA are reported at fair value. Various bond resolutions of PFA restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of PFA. PFA handles investments for two major governmental funds of the Government: PFA Debt Service Fund and PFA Capital Projects Fund.

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- *Tobacco Settlement Financing Corporation Investment Policies* - Various bond resolutions of this blended component unit restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. TSFC has retained investment managers and investments are held in trust by a commercial bank on behalf of the TSFC. Investments are reported at fair value in the non-major governmental fund of the Government.
- *VIHA Investment Policies* - This major component unit is required by the U.S. Department of Housing and Urban Development (HUD) to invest excess funds in obligations of the United States, certificates of deposit, or any other federally insured investment. HUD requires that deposits be fully collateralized and may be held by an unaffiliated bank or trust company for the account of the VIHA.
- *WAPA and VIPA Investment Policies* - These major component units are authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, non-negotiable certificates of deposit, repurchase agreements, obligations of the U.S. government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.
- *VIGHHFC Investment Policies* - The board of trustees of this major component unit has not developed a formal investment policy.
- *University Investment Policies* - The board of trustees of this major component unit is responsible for the management of the University's investments and establishes an investment policy, which is carried out by the Vice President for Administration and Finance. The University and its component unit, the Foundation for the Reichhold Center of the Arts have a formal investment policy approved by their corresponding board of trustees, which contains a requisite section on addressing risks. The University's investments are included in the Foundation's investment portfolio for management and investment purposes.
- *Pension Trust Fund Investment Policies* - The board of trustees of GERS has enacted policies that limit investments in certain investment categories and provide requirements for the institutions managing investments. Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund or exceed 1% of the outstanding stock of the corporation.

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The aggregate amount of investments in stock may not exceed 60% of the market value of total investments of GERS. Investment in foreign stock should be limited to 10% of the market value of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of GERS.

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

GERS is authorized to provide loans to businesses approved by the Board of Trustees as alternative investments. On December 8, 2009, GERS executed a loan agreement with Carambola Northwest, LLC (Carambola), a condominium, hotel and golf resort on the island of St. Croix. The five-year term loan in the amount of \$15.0 million was collateralized with all real property holdings of Carambola, with an interest rate of 10.5% per annum. Carambola subsequently went into default on the loan agreement. On May 11, 2013, GERS exercised its rights under the loan agreement and executed a preliminary Disposition Agreement with Carambola assuming management and ownership of the resort complex. As of September 30, 2018, the complex had an appraised value of \$15.0 million.

On July 18, 2012, GERS executed a loan agreement with Attilanus. Under the terms of the agreement, a credit facility of \$10.0 million was made available to meet on-going premium costs and other expenses of the Company. The terms of the credit facility require interest payments at a rate of 15% per annum, and principal payments reduce the future amount available. The entire loan principal and accrued and unpaid interest was to be repaid at the termination of the credit facility on July 10, 2017. The loan was not paid on the termination date and as of September 30, 2018, the outstanding balance of the credit facility was \$10.0 million. GERS has received interest payments totaling \$3.4 million.

On September 24, 2013, GERS entered into a loan agreement with KAZI Foods of the Virgin Islands, Inc. in the amount of \$6.0 million at an interest rate of 6.25%, and a maturity date of October 23, 2023. At September 30, 2018, the outstanding principal balance on the loan is \$3.6 million.

On June 30, 2014, GERS entered into a construction loan agreement with V.I. Finest Foods, LLC in the amount of up to \$8.2 million at an interest rate of 6.4%, with an interest-only period of 17 months and a fully amortizing period of 103 months. The loan was subsequently modified on May 24, 2016, to provide an increase in the principal amount of the loan to \$11.0 million and an extended maturity date of March 31, 2025. At September 30, 2018, the outstanding balance of the loan is \$10.4 million.

GERS has also invested in Havensight Mall, a shopping and pier complex on the island of St. Thomas with a fair market value of \$41.0 million and the limited partnership Mesirow with a fair market value of \$16.3 million at September 30, 2018.

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Notes to Basic Financial Statements

GERS owns administrative facilities on the islands of St. Thomas and St. Croix. Portions of the facilities are leased to government agencies and commercial tenants, and portions of the facilities are utilized for GERS operations. The investment in real estate is reported at its appraised value, which approximates fair value, in the amount of \$23.1 million at September 30, 2018.

Receivables

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes, excise taxes, hotel occupancy taxes, and real property taxes. Federal government receivables represent amounts owed to the Government for reimbursement of expenditures/expenses incurred pursuant to federally funded programs.

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

The accounts receivable from non-governmental customers of the discretely presented component units are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users.

Interfund and Intra-Entity Transactions

The Government has the following types of transactions among funds:

- *Interfund Transfers* - Legally required transfers are reported as interfund transfers in (out) when incurred. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type.
- *Intra-entity Transactions* - These are transactions between the PG and its discretely presented component units, and among the component units.

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

Restricted Assets

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

Capital Assets

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

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Notes to Basic Financial Statements

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (i) \$5,000 for personal property with a useful life of five years; (ii) \$50,000 for buildings and building improvements with estimated useful lives of 40 and 20 years, respectively; (iii) \$100,000 for land improvements with an estimated useful life of 20 years; (iv) \$200,000 for intangibles with estimated useful lives between 2 and 15 years; and (v) \$200,000 for infrastructure with an estimated useful life of 30 years. All costs of acquiring land are capitalized.

Capital assets purchased or acquired are carried at historical cost or normal cost. The normal costing method to estimate cost based on replacement cost indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date was used to estimate the historical cost of certain land, buildings, and building improvements because invoices and similar documentation was no longer available in certain instances. Donated capital assets are recorded at acquisition value at the time of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business-type activities and proprietary component units. The costs of routine maintenance and repairs that do not add value to the assets or materially extend asset lives are expensed as incurred.

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

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

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

The estimated useful lives of capital assets reported by the component units are (i) 4 to 50 years for buildings and building improvements; (ii) 20 to 40 years for airports and marine terminals; (iii) 40 to 100 years for water transmission and distribution mains; and (iv) 3 to 25 years for vehicles and equipment.

The PG and its component units review the carrying value of their capital assets to determine if circumstances exist indicating impairment. If facts or circumstances support the possibility of impairment, management follows the guidance in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. If impairment is indicated, an adjustment is made to the carrying value of the capital assets.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents consumption of the net position that applies to future period(s) and is not recognized as an outflow of resources (expense/expenditure) until the future date occurs.

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The Government has two items for financial reporting in these categories, as follows:

- Deferred amounts related to pension represent unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.
- Deferred charges on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

The Government has three items for financial reporting in this category, as follows:

- Deferred amounts related to pension consist of the unamortized portion of the difference between expected and actual experience, net difference between projected and actual earnings on pension plan investments, changes in assumptions, and changes in proportion and differences between contributions and proportional share of contributions.
- Deferred amounts related to other postemployment benefits consisting of the unamortized portion of the changes in assumptions and other inputs.
- Modified accrual basis of accounting - Unavailable revenues qualify for reporting in this category. The item, *unavailable revenues*, is reported only in the governmental funds' balance sheet. The governmental funds report unavailable revenues from three sources: property taxes, gross receipts taxes, and income taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Tax Refunds Payable

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

Compensated Absences

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement.

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This vacation policy does not apply to professional educational personnel of the Virgin Islands Department of Education, who receive compensation during the school breaks. Upon retirement, an employee receives compensation for unused vacation leave at the employee's base pay rate.

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

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

Long-term Liabilities

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, pension liabilities and other long-term liabilities including: accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post closure costs, postemployment benefits, and workers compensation claims.

Bond premiums, discounts, and amounts deferred on capital appreciation bonds are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums and discounts. Issuance costs are reported as expenses in the year incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Net Position

Net position is reported in three categories:

- *Net Investment in Capital Assets* - This consists of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds are not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is presented, net of the related debt, as restricted for capital projects.
- *Restricted Net Position* - Constraints placed on the use of assets are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted Net Position* - These consist of assets which do not meet the definition of the two preceding categories.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

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

Fund Balance

GAAP provides a hierarchy of classifications based primarily on the extent to which the Government is bound to honor constraints on the specific purposes for which amounts in funds may be spent. Following are the fund classifications:

- *Restricted Fund Balance* - Fund balances constrained by externally imposed constraints such as constitutional provisions, laws and regulations, debt covenants, and grantors. The Government's policy is to consider restricted amounts to have been spent first when expenditures are incurred for which both restricted and unassigned fund balances are available.
- *Committed Fund Balance* - Fund balances subject to constraints imposed by the Government's highest level of decision-making authority including legislation enacted by the Legislature of the Virgin Islands and resolutions or ordinances enacted by Government elected regulatory boards and authorities. Committed fund balances may be modified or rescinded by enacted legislation, or amendment of resolutions or ordinances.
- *Assigned Fund Balance* - Fund balances subject to budgetary constraints of the Legislature, the Office of Management and Budget, or authorizing boards of the Government, that are not restricted or committed.

Budgetary authority of the Office of Management and Budget is provided by Title 2, Sections 22, 23, 26 and 27 VIC, and Executive Order No. 371-1997. The Government's policy is to expend assigned or committed amounts, before unassigned amounts, when an expenditure is incurred.

- *Unassigned Fund Balance* - Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The residual deficit of the Federal Grants Fund and other governmental funds are also reported as unassigned fund balance.

Risk Management

With some exceptions, the Government does not carry general liability insurance coverage on its properties or the acts of its employees, relying instead on self-insurance and/or statutory liability limitations. The Government purchases commercial insurance for physical losses or damages against its property. The limit of liability for all risks, excluding earthquake, windstorm, and flood, is \$1.0 million for each occurrence except for windstorm and flood losses, which has a \$45.0 million limit. For physical losses arising from earthquake, the insurance policy has a limit of \$100.0 million for each occurrence and in the annual aggregate.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Adoption of Accounting Pronouncements

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions. It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The requirements of this Statement are effective for the Government's financial statements for the year ended September 30, 2018. Also see Note 15 and Note 17.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for the Government's financial statements for the year ended September 30, 2018. The Government has evaluated this Statement and has determined there is no impact on the financial statements.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. This Statement addresses practical issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The requirements of this Statement are effective for the Government's financial statements for the year ended September 30, 2018. The Government has evaluated this Statement and has determined there is no impact on the financial statements.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishments Issues*. This Statement improves consistency in accounting and financial reporting for in-substance defeasance of debt. The Statement provides guidance for transactions in which cash and other monetary assets acquired with existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. The requirements of this Statement are effective for the Government's financial statements for the year ended September 30, 2018. The Government has evaluated this Statement and has determined there is no impact on the financial statements.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Following are statements issued by GASB that are effective in future years. In light of the COVID-19 pandemic, on May 8, 2020, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide relief to governments. This Statement, which was effective upon issuance, postpones the effective dates of certain provisions in these upcoming pronouncements for one year, except for GASB Statement No. 87 which is postponed for eighteen months.

| GASB Statement No. | | Adoption Effective in Fiscal Year (as Revised) |
|-----------------------------------|--|---|
| 83 | Certain Asset Retirement Obligations | 2020 |
| 84 | Fiduciary Activities | 2021 |
| 87 | Leases | 2022 |
| 88 | Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements | 2020 |
| 89 | Accounting for Interest Cost Incurred Before the End of a Construction Period | 2022 |
| 90 | Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61 | 2021 |
| 91 | Conduct Debt Obligations | 2023 |
| 92 | Omnibus 2020 | 2022 |
| 93 | Replacement of Interbank Offered Rates | 2022 |
| 94 | Public-Private and Public-Public Partnerships and Availability Payment Arrangements | 2023 |

Certain provisions of GASB Statement No. 92 are excluded from GASB Statement No. 95. Additionally, GASB Statement No. 95 excludes provisions in GASB Statement No. 93 related to lease modifications and excludes GASB Statement No. 94 since the GASB considered the pandemic in determining effective dates. Earlier application of the standards is permitted to the extent specified in each pronouncement as originally issued. The Government is currently evaluating the impact of these statements.

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Notes to Basic Financial Statements

2. Component Units

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

Major Component Units

- Virgin Islands Housing Authority
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- University of the Virgin Islands

Other Component Units (Nonmajor)

- Virgin Islands Economic Development Authority
- Magens Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Broadcasting System
- Virgin Islands Waste Management Authority
- University of the Virgin Islands Research and Technology Park Corporation (unaudited)

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Condensed financial information as of September 30, 2018, of all discretely presented component units follows (expressed in thousands):

| | Housing Authority | Virgin Islands Port Authority | Virgin Islands Water and Power Authority | | Hospital and Health Facilities Corporation | | University of the Virgin Islands | Other Component Units* | Total Component Units |
|--|-------------------|-------------------------------|--|------------------|--|-----------------------|----------------------------------|------------------------|-----------------------|
| | | | Electric System | Water System | Schneider Regional Medical | Juan F. Luis Hospital | | | |
| Assets and deferred outflows of resources | | | | | | | | | |
| Current assets | \$ 34,951 | \$ 70,455 | \$ 82,554 | \$ 11,621 | \$ 18,028 | \$ 25,110 | \$ 15,470 | \$ 164,825 | \$ 423,014 |
| Due from primary government | - | - | 33,078 | 5,432 | - | 2,766 | 651 | 9,024 | 50,951 |
| Due from federal government | 764 | 4,959 | 36,671 | 1,072 | 1,307 | 1,733 | 3,167 | 23,025 | 72,698 |
| Restricted assets | 1,022 | 26,350 | 55,870 | 792 | 1,250 | 1,411 | 65,704 | 53,878 | 206,277 |
| Capital assets, net | 56,536 | 216,462 | 931,474 | 66,056 | 34,695 | 21,545 | 58,180 | 167,847 | 1,552,795 |
| Other noncurrent assets | 6,361 | 600 | 18,726 | - | 419 | - | 13,552 | 40,231 | 79,889 |
| Deferred outflows of resources | 15,779 | 38,039 | 58,059 | 11,892 | 33,521 | 50,294 | 17,802 | 25,025 | 250,411 |
| Total assets and deferred outflows of resources | 115,413 | 356,865 | 1,216,432 | 96,865 | 89,220 | 102,859 | 174,526 | 483,855 | 2,636,035 |
| Liabilities and deferred inflows of resources | | | | | | | | | |
| Current liabilities | 5,801 | 28,674 | 443,198 | 9,766 | 34,367 | 38,999 | 10,407 | 221,278 | 792,490 |
| Due to primary government | - | - | - | - | 20,094 | 47,305 | - | - | 67,399 |
| Due to federal government | - | - | 4,142 | - | - | - | - | - | 4,142 |
| Bonds payable - long-term | - | 39,717 | 253,954 | 75,000 | - | - | - | - | 368,671 |
| Notes payable - long-term | - | - | - | - | - | - | 79,416 | 9,253 | 88,669 |
| Due to (from) component unit | - | - | 69,692 | (69,692) | - | 10,160 | - | - | 10,160 |
| Pension liabilities | 72,534 | 148,005 | 247,391 | 50,670 | 146,633 | 134,218 | 84,782 | 105,638 | 989,871 |
| Other postemployment benefits | 11,552 | 23,127 | 46,280 | 9,479 | - | - | 10,589 | - | 101,027 |
| Other noncurrent liabilities | 2,752 | 2,618 | 145,686 | - | - | - | 4,673 | 10,550 | 166,279 |
| Unearned revenue - long-term | - | - | - | - | - | - | - | 3,609 | 3,609 |
| Deferred inflows of resources | 6,790 | 12,484 | 53,950 | 11,050 | 24,776 | 14,129 | 5,391 | 9,720 | 138,290 |
| Total liabilities and deferred inflows of resources | 99,429 | 254,625 | 1,264,293 | 86,273 | 225,870 | 244,811 | 195,258 | 360,048 | 2,730,607 |
| Net assets (deficit): | | | | | | | | | |
| Invested in capital assets, net of related debt | 54,786 | 198,058 | 610,288 | 66,056 | 34,695 | 18,092 | (19,385) | 150,632 | 1,113,222 |
| Restricted | 1,188 | 26,926 | 22,718 | 649 | 1,249 | 101 | 38,250 | 66,767 | 157,848 |
| Deficit | (39,990) | (122,744) | (680,867) | (56,113) | (172,594) | (160,145) | (39,597) | (93,592) | (1,365,642) |
| Total net position (deficit) | \$ 15,984 | \$ 102,240 | \$ (47,861) | \$ 10,592 | \$ (136,650) | \$ (141,952) | \$ (20,732) | \$ 123,807 | \$ (94,572) |

*University of the Virgin Islands Research and Technology Park Corporation (unaudited)

Government of the United States Virgin Islands

Notes to Basic Financial Statements

| Information on Statement of Activities | Expenses | Program revenue | | | Total Component Units |
|---|-------------------|----------------------|------------------------------------|----------------------------------|-----------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Virgin Islands Port Authority | \$ 86,061 | \$ 40,825 | \$ - | \$ 9,726 | \$ (35,510) |
| Virgin Islands Housing Authority | 55,488 | 6,898 | 38,538 | 2,496 | (7,556) |
| Virgin Islands Water and Power Authority: | | | | | |
| Electric System | 295,344 | 133,656 | - | 414,194 | 252,506 |
| Water System | 30,513 | 24,769 | - | 1,303 | (4,441) |
| Virgin Islands Government | | | | | |
| Hospital and Health Facilities Corporation: | | | | | |
| Roy L. Schneider Hospital | 73,184 | 37,971 | 22,834 | 2,385 | (9,994) |
| Juan F. Luis Hospital | 66,119 | 20,887 | 20,635 | 119 | (24,478) |
| University of the Virgin Islands | 80,896 | 44,483 | 21,470 | 4,992 | (9,951) |
| Other component units* | 311,753 | 42,419 | 247,660 | 2,718 | (18,956) |
| Total activities | \$ 999,358 | \$ 351,908 | \$ 351,137 | \$ 437,933 | \$ 141,620 |
| General revenue: | | | | | |
| Interest and other | | | | | 21,266 |
| Special item - impairment losses on capital assets, net | | | | | (45,539) |
| Changes in net position | | | | | 117,347 |
| Net position, beginning of year (as restated) | | | | | (211,919) |
| Net deficit, end of year | | | | | \$ (94,572) |

*University of the Virgin Islands Research and Technology Park Corporation (unaudited)

The summary of due to/from primary government and component units as of September 30, 2018, is as follows (expressed in thousands):

| | Due from PG/ Component Units | Due to PG/ Component Units |
|--|------------------------------------|----------------------------------|
| Governmental funds: | | |
| General fund | \$ 65,959 | \$ 15,904 |
| PFA capital projects | - | 2,048 |
| Other governmental funds | 30,857 | 4 |
| Discretely presented component units: | | |
| WAPA - Electric System | 33,078 | - |
| WAPA - Water System | 5,432 | - |
| Hospital and Health Facilities Corporation | 2,766 | 67,399 |
| University of the Virgin Islands | 651 | - |
| Other component units* | 9,024 | - |
| | \$ 147,767 | \$ 85,355 |

*University of the Virgin Islands Research and Technology Park Corporation (unaudited)

The amounts reported by the Governmental funds and the discretely presented component units may not agree due to reporting on different fiscal year-ends.

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Notes to Basic Financial Statements

3. Cash and Cash Equivalents

Primary Government

At September 30, 2018, the PG reported \$288.9 million in unrestricted cash and cash equivalents and \$5.3 million in restricted cash and cash equivalents. All bank balances were fully collateralized.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2018, GERS held \$162.8 million in cash and cash equivalents consisting of: \$146.0 million in money market accounts and \$16.8 million in operational accounts.

Component Units

At September 30, 2018, discretely presented component units held \$149.5 million in unrestricted cash and cash equivalents and \$84.7 million in restricted cash and cash equivalents.

4. Investments

Fair Value Measurements

The Government categorizes the fair market measurements of its investments within the fair value hierarchy established by GAAP. GASB Statement No. 72, *Fair Value Measurement and Application*, provides the framework for measuring fair value by establishing a three-level fair value hierarchy that describes inputs that are used to measure assets and liabilities as follows:

- Level 1: Inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2: Inputs are other than quotes prices included within Level 1 that are observable for an asset or liability, that are either directly or indirectly observable.
- Level 3: Inputs are significant unobservable inputs.

The fair value hierarchy gives the highest priority to Level 1 and the lowest priority to Level 3 inputs. If a price for an identical asset is not observable, a government may evaluate fair market value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset is measured using inputs from more than one level of the fair market value hierarchy, the measurement is based on the lowest level input that is significant to the entire measurement.

The following section describes the valuation technique methodologies the Government is using to measure assets at fair value:

- Level 1: Investments classified within Level 1 are valued based on quotes obtained from active public exchanges or reported on the national market and are stated at the last reported sales price on the day of valuation. Fair value of exchange-traded contracts is based upon exchange settlement prices.

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Notes to Basic Financial Statements

Level 2: Investments classified within Level 2 are valued by pricing vendors using outside data. In determining the fair value of the investments, the pricing vendors use a market approach and pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security. The commercial paper, certificates of deposit, U.S. government, agency and state obligations, U.S. Treasury notes, debt securities are classified as Level 2 instruments as their fair value is based on quoted values stated by the bank's mark-to-market estimate using a stated fixed rate. The interest rate is observable at commonly quoted indexes for the full term of the instruments.

Level 3: Investments in limited partnerships and private debt/direct lending are classified within Level 3 of the fair value hierarchy. Given the absence of market quotations, fair value is estimated using the information provided by the investment managers or general partners. The values are based on estimates that require varying degrees of judgment and, for the fund of funds investments, are primarily based on financial data supplied by the investment managers of the underlying funds.

Individual holdings within alternative investments may include instruments in both nonmarketable and market-traded securities. Nonmarketable securities may include equity in private companies, real estate, thinly traded securities, and other investment vehicles. While these financial instruments contain varying degrees of risk, the Government's exposure with respect to each such investment is limited to carrying amount (fair value as described above).

Assets using net asset value per share as fair value are not required to be categorized using the fair value hierarchy levels.

As of September 30, 2018, the PG's investments include a non-negotiable certificate of deposit, which is not subject to the fair value hierarchy.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Primary Government

Following are the investments of the PG categorized within the three-level fair value hierarchy:

| | September 30, 2018 | <i>(in thousands)</i> | | |
|---|-----------------------|-----------------------|-------------------|-------------|
| | | Level 1 | Level 2 | Level 3 |
| Money market funds | \$ 320,704 | \$ 320,704 | \$ - | \$ - |
| Investments with contractual maturities: | | | | |
| Certificates of deposit | 4,065 | - | 4,065 | - |
| U.S. government, agency and state obligations | 122,554 | - | 122,554 | - |
| U.S. Treasury notes | 31,222 | - | 31,222 | - |
| Portfolio investments: | | | | |
| Commercial paper | 140,668 | - | 140,668 | - |
| Subtotal | 619,213 | \$ 320,704 | \$ 298,509 | \$ - |
| Investments, at cost: | | | | |
| Non-negotiable certificate of deposit | 10,145 | | | |
| Others | 22 | | | |
| Total | \$ 629,380 | | | |

Following is a summary of the investments of the PG categorized by investment type and weighted average maturity, as of September 30, 2018, (expressed in thousands):

| | Fair Value | Maturity (in years) | | |
|--|-------------------|---------------------|-------------------|-----------------|
| | | Less Than 1 Year | 1 to 5 Years | Over 5 Years |
| Investments with contractual maturities | | | | |
| Certificates of deposit | \$ 14,210 | \$ 14,210 | \$ - | \$ - |
| U.S. government, agency and state obligations | 122,554 | 16,700 | 105,854 | - |
| U.S. Treasury notes | 31,222 | 31,222 | - | - |
| Portfolio investments | | | | |
| Commercial paper | 140,668 | 140,434 | - | 234 |
| Other investments | 22 | 22 | | |
| Total investments with contractual maturities | 308,676 | \$ 202,588 | \$ 105,854 | \$ 234 |
| Investments without contractual maturities | | | | |
| Money market funds | 320,704 | | | |
| Total | \$ 629,380 | | | |

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The PG does not have a formal investment policy that limits investment maturities as a means of managing such exposure. As a means of keeping the interest rate risk low, investments held by the PG are virtually less than five years in nature.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

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

At September 30, 2018, the PG's investments in money market funds were rated AAA by Standard & Poor's, and Aaa- and Aaa by Moody's Investors Service. The PG's investments in commercial paper were rated A-1 and A-2 by Standard & Poor's and P-1 and P-2 by Moody's Investors Service. The PG's investments in government, agency and state obligations were rated AA- to AAA by Standard & Poor's and Aa3 to Aaa by Moody's Investors Service. The PG's investments in certificates of deposit was rated P-2 by Moody's Investor Services and A-2 by Standard & Poor's.

Concentration of Credit Risk - The PG places no limit on the amount that may be invested in one issuer. At September 30, 2018, more than 5.0% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (38.6%), Hannover FDG Co., LLC, CPDs (12.12%), Federal Home Loan Mortgage Corporation (8.8%), Federated Government Obligation #5 Money Market (8.6%), and Chesham FIN, LLC, CPDs (6.2%).

Custodial Credit Risk - The PG does not have a custodial risk policy. The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, the PG will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. At September 30, 2018, \$617.5 million of investments were held in the name of the Bank of New York Trust Company, N.A, as trustee for the Government.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Pension Trust Fund

Following are the investments of the Pension Trust Fund categorized within the three-level fair value hierarchy:

| | September 30, 2018 | (in thousands) | | |
|---|-----------------------|----------------|------------------|-------------------|
| | | Level 1 | Level 2 | Level 3 |
| Debt securities: | | | | |
| Government agency obligations | \$ 17,119 | \$ - | \$ 17,119 | \$ - |
| Municipal obligations | 975 | - | 975 | - |
| Corporate bond | 22,943 | - | 22,943 | - |
| Asset-backed securities | 6,808 | - | 6,808 | - |
| Collateralized mortgage obligations | 1,116 | - | 1,116 | - |
| Commercial mortgaged-backed securities | 3,472 | - | 3,472 | - |
| Residential mortgaged-backed securities | 17,886 | - | 17,886 | - |
| Limited partnerships: | | | | |
| Private equity funds | 16,334 | - | - | 16,334 |
| Private lending | 23,987 | - | - | 23,987 |
| Member loans | 74,181 | - | - | 74,181 |
| Real estate/other real assets | 79,148 | - | - | 79,148 |
| Subtotal | 263,969 | \$ - | \$ 70,319 | \$ 193,650 |
| Investment, as cost: | | | | |
| Money market funds | 146,014 | | | |
| Investments measured at net asset value (NAV): | | | | |
| Commingled equity funds | 156,369 | | | |
| Commingled bond funds | 214,817 | | | |
| Securities lending collateral fund | 1,231 | | | |
| Total | \$ 782,400 | | | |

Pension trust funds investments which are measured at NAV per share, or equivalent are presented in the table below (expressed in thousands):

| | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|-------------------|-------------------------|-------------------------|-----------------------------|
| Investments measured at net asset value (NAV): | | | | |
| Commingled equity funds | \$ 156,369 | \$ - | Daily, Semi- monthly | 1 - 15 days |
| Commingled bond funds | 214,817 | - | Daily | 2 - 10 days |
| Securities lending collateral fund | 1,231 | - | Daily | None |
| Total | \$ 372,417 | \$ - | | |

Commingled equity and bond funds - This type includes nine commingled funds that invest in publicly traded domestic and global stocks, and domestic and global fixed income securities. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the investments. The total commingled funds can be liquidated on a daily basis. All of the underlying securities within the commingled funds carry a recurring fair value measurement level of 2. There are no unfunded commitments for the commingled funds at September 30, 2018.

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Notes to Basic Financial Statements

Securities lending collateral - GERS' custodian is the agent in lending the GERS' securities for collateral and investments which are in a commingled fund.

Following is a summary of the investments of the pension trust fund, categorized by investment type and weighted average maturity, as of September 30, 2018, (expressed in thousands):

| | Fair Value | Maturity (in years) | | | | | No Stated Maturity |
|--|------------|---------------------|--------------|---------------|--------------------|------------|--------------------|
| | | Less Than 1 Year | 1 to 5 Years | 6 to 10 Years | More than 10 Years | | |
| Investments with contractual maturities | | | | | | | |
| Commingled mutual funds | \$ 371,186 | \$ - | \$ - | \$ - | \$ - | \$ 371,186 | - |
| Corporate obligations | 22,943 | 886 | 10,382 | 6,853 | 4,822 | - | - |
| Investment loans | 23,987 | 9,401 | 4,150 | 10,436 | - | - | - |
| Mortgage and asset backed securities | 29,282 | 193 | 5,758 | 2,186 | 21,145 | - | - |
| Municipals | 975 | - | - | - | 975 | - | - |
| U.S. government and agency obligations | 582 | - | 582 | - | - | - | - |
| U.S. Treasury bonds | 6,082 | - | - | - | 6,082 | - | - |
| U.S. Treasury notes | 10,455 | - | 6,975 | 3,480 | - | - | - |
| Total investments with contractual maturities | 465,492 | \$ 10,480 | \$ 27,847 | \$ 22,955 | \$ 33,024 | \$ 371,186 | |
| Investments without contractual maturities | | | | | | | |
| Money market funds | 146,014 | | | | | | |
| Real estate investments: | | | | | | | |
| Havensight Mall - U.S. Virgin Islands | 41,000 | | | | | | |
| Renaissance Carambola Beach Resort | 15,000 | | | | | | |
| GERS Complex - U.S. Virgin Islands | 23,148 | | | | | | |
| Limited partnerships | 16,334 | | | | | | |
| Debt lending - member loans | 74,181 | | | | | | |
| Securities lending short-term collateral investment pool | 1,231 | | | | | | |
| Total | \$ 782,400 | | | | | | |

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

Credit Risk - GERS investment policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by statute, subject to certain additional limitations.

These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. GERS investment policy allows investments in mortgage pass-through securities.

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Notes to Basic Financial Statements

The credit ratings of GERS' debt securities at September 30, 2018, include (expressed in thousands):

| | Standard & Poor's Global Ratings | | Moody's Investors Service | |
|--------------------------------------|-------------------------------------|----------------|------------------------------|----------------|
| | Fair Value | Credit Ratings | Fair Value | Credit Ratings |
| Corporate obligations | \$ 263 | AA+ | \$ 263 | AA1 |
| Corporate obligations | 138 | AA- | - | - |
| Corporate obligations | 525 | A+ | - | - |
| Corporate obligations | 553 | A | - | - |
| Corporate obligations | 3,846 | A- | - | - |
| Corporate obligations | 6,205 | BBB+ | - | - |
| Corporate obligations | 8,025 | BBB | - | - |
| Corporate obligations | 3,368 | BBB- | - | - |
| Corporate obligations | 20 | Not Available | - | - |
| Corporate obligations | - | - | 1,844 | A1 |
| Corporate obligations | - | - | 1,007 | A2 |
| Corporate obligations | - | - | 2,585 | A3 |
| Corporate obligations | - | - | 6,384 | Baa1 |
| Corporate obligations | - | - | 5,080 | Baa2 |
| Corporate obligations | - | - | 5,474 | Baa3 |
| Corporate obligations | - | - | 306 | Not Available |
| Investment loans | 23,987 | Not Rated | 23,987 | Not Rated |
| Mortgage and asset backed securities | 5,087 | AAA | - | - |
| Mortgage and asset backed securities | 24,195 | Not Available | - | - |
| Mortgage and asset backed securities | - | - | 345 | Aaa |
| Mortgage and asset backed securities | - | - | 6,558 | Aa1 |
| Mortgage and asset backed securities | - | - | 21,534 | Not Available |
| Mortgage and asset backed securities | - | - | 845 | Not Rated |
| Commingled and mutual funds | 371,186 | Not Rated | 371,186 | Not Available |
| Total | \$ 447,398 | | \$ 447,398 | |

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of GERS' investments in a single issuer of securities. GERS' investment policy establishes limitations on portfolio composition by investment type to limit its exposure to concentration of credit risk. There are no investments in any one issuer that represent 5.0% or more of total investments.

Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on loans secured by noncash collateral, the System's entire investment portfolio was held with a single third-party custodian in the System's name as of September 30, 2018. At September 30, 2018, the System had no underlying securities on loan secured by noncash collateral.

Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

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

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded with interest, dividends, and other income or losses reported at fair value.

During the fiscal year ended September 30, 2018, GERS did not engage in any foreign currency exchange contracts.

Securities Lending Transactions - The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of a loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2018 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement, the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were no such violations during fiscal year 2018, or losses resulting from the default of the borrowers or the Custodian.

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

At September 30, 2018, approximately \$6.7 million of U.S. government and agency obligations, and equity corporate bonds were on loan. The cash collateral received with a corresponding liability of an equal amount is recorded in the statement of fiduciary net position. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2018, such investment pool had a weighted average maturity of 39 days and an average expected maturity of 78 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Component Units

Following are the investments of the discretely presented component units categorized within the fair value hierarchy:

| | September 30, 2018 | (in thousands) | | |
|--|-----------------------|------------------|------------------|-------------|
| | | Level 1 | Level 2 | Level 3 |
| Investments, at fair value: | | | | |
| U.S. Government agencies and notes | \$ 34,904 | \$ 34,904 | \$ - | \$ - |
| Common stocks | 11,712 | 11,712 | - | - |
| Corporate bonds | 4,116 | - | 4,116 | - |
| Mutual funds | 725 | 725 | - | - |
| Derivative instruments | 13,890 | - | 13,890 | - |
| Subtotal | 65,347 | \$ 47,341 | \$ 18,006 | \$ - |
| Investments, at cost: | | | | |
| Certificate of deposits | 19,981 | | | |
| Investments measured at net asset value (NAV): | | | | |
| Alternative investments | 56,226 | | | |
| Total | \$ 141,554 | | | |

Following is a summary of the investments of the discretely presented component units, categorized by investment type and weighted average maturity, as of September 30, 2018, (expressed in thousands):

| | Fair Value | Maturity (in years) | | | |
|--|-------------------|---------------------|-----------------|------------------|-----------------------|
| | | Less Than 1 Year | 1 to 5 Years | 6 to 10 Years | More than 10 Years |
| Investments with contractual maturities | | | | | |
| Certificates of deposit | \$ 19,981 | \$ 13,984 | \$ 5,997 | \$ - | \$ - |
| U.S. Government agencies and notes | 34,904 | 34,904 | - | - | - |
| Total investments with contractual maturities | 54,885 | \$ 48,888 | \$ 5,997 | \$ - | \$ - |
| Investments without contractual maturities | | | | | |
| Common stock | 11,712 | | | | |
| Mutual funds | 725 | | | | |
| Corporate bonds | 4,116 | | | | |
| Other investments | 70,116 | | | | |
| Total | \$ 141,554 | | | | |

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

Credit Risk and Concentration of Credit Risk - The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investments choices of the component units, as described in Note 1. There are no investments in any one issuer that represent 5.0% or more of total investments.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Custodial Credit Risk - The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, the component units will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. The component units of the Government do not have custodial credit risk policies.

Agency Fund

At September 30, 2018, the agency fund had \$11.6 million invested in certificates of deposit. They are classified as Level 2 instruments as their fair value is based on quoted values stated by the bank's mark-to-market estimate using a stated fixed rate. The interest rate is observable at commonly quoted indexes for the full term of the instruments.

5. Receivables

Primary Government

Receivables for governmental funds at September 30, 2018, consist of the following (expressed in thousands):

| | General | PFA Debt Service | Other Governmental | Total |
|--------------------------------------|------------|---------------------|-----------------------|------------|
| Income taxes | \$ 274,494 | \$ - | \$ - | \$ 274,494 |
| Real property taxes | 137,089 | - | - | 137,089 |
| Hotel occupancy taxes | 5,615 | - | - | 5,615 |
| Excise taxes | 1,365 | - | - | 1,365 |
| Gross receipts taxes | - | 250,343 | - | 250,343 |
| Gross taxes receivables | 418,563 | 250,343 | - | 668,906 |
| Less allowance for doubtful accounts | (260,594) | (209,502) | - | (470,096) |
| Taxes receivables, net | 157,969 | 40,841 | - | 198,810 |
| Other | \$ 38 | \$ - | \$ 122 | 160 |
| Tobacco settlement rights | | | | 867 |
| Total | | | | \$ 199,837 |

(a) Tax Receivables

The Naval Appropriations Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code (IRC) of 1986, as amended. Income taxes are due from every corporation, partnership, individual, association, estate, or trust that meets the filing requirements of the U.S. Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies his/her Virgin Islands income tax obligations by filing his/her return with and paying income taxes to the Government. Bona fide residents of the Virgin Islands are taxed by the Virgin Islands on their world-wide income. A nonresident of the U.S. Virgin Islands pays income taxes on his/her U.S. Virgin Islands source income to the Government.

The revenue is recognized in the general fund in the fiscal period for which the income tax return was filed. The revenue from income tax withholding and estimated payments are recognized in the general fund as collected, net of estimated tax refunds.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Subchapter S and C corporate income tax returns are due by the 15th day of the fourth month following the close of the calendar year and become delinquent if not paid on or before the due date. Partnership income taxes are due by April 15 of the following year and trust income taxes are due by April 15 of the following year for which the income tax was levied. Trust income taxes must be paid by the tax filing date.

For the tax year ended December 31, 2017, the income tax filing date for individuals, businesses and trust tax filings (and certain other tax filings) were extended to June 29, 2018 through disaster relief provisions of the Internal Revenue Service (IRS) following Hurricanes Irma and Maria. For the tax year ended December 31, 2018, the income tax filing dates were not extended.

Property taxes are assessed each calendar year on all taxable real property located in the U.S. Virgin Islands. The receivable is recognized, net of estimated uncollectable amounts, in the general fund in the fiscal period for which the tax is assessed.

The revenue is recognized in the general fund in the fiscal period for which the property tax is levied, provided the tax is collected within 60 days after fiscal year-end, unless the facts justify a period greater than 60 days. Receivables collected after that period, are recorded as unavailable property tax revenue.

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

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

For businesses with gross receipts of \$225,000 per annum or less, gross receipts taxes are levied on an annual basis based on the amount of gross receipts exceeding \$9,000 per month. Businesses with annual gross receipts of more than \$225,000 are levied on a monthly basis with no \$9,000 per month exemption. The gross receipts tax rate is 5.0% of sales and service revenue.

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

(b) Other Receivables

In addition to tax receivables, the PG receives tobacco settlement right payments in connection with a Master Settlement Agreement with certain participating cigarette manufacturers. Under the terms of the agreement, the U.S. Virgin Islands receives .0173593% of annual payments made under the agreement. As of September 30, 2018, the PG reported a receivable of \$867,000 for tobacco settlement right payments as included in the accompanying statement of net position.

On November 14, 2011, the PG entered into a loan agreement on behalf of GERS in the amount of \$13.0 million, at an interest rate of 4.9% and a maturity date of December 15, 2016. The loan was secured by pledged property tax receipts for years prior to and including 2005.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

The loan was not paid by the due date of December 15, 2016 and was converted to a two-year term loan to be paid with pledged property tax revenues and pledged gross receipts tax revenues. At September 30, 2018, the outstanding balance of the loan was \$643,000 included in GERS investment loan balance.

Component Units

Receivables for the discretely presented component units at September 30, 2018, consist of the following (expressed in thousands):

| | |
|-------------------------|-------------------|
| Utility service charges | \$ 25,450 |
| Patients | 17,619 |
| Students | 1,819 |
| Port fees | 4,385 |
| Other* | 148,875 |
| Total | \$ 198,148 |

*University of the Virgin Islands Research and Technology Park Corporation (unaudited)

Pension Trust Fund

Loans and advances to members of GERS at September 30, 2018, consist of the following (expressed in thousands):

| | |
|---------------------------|------------------|
| Personal loans | \$ 68,871 |
| Mortgage loans | 6,266 |
| Automobile loans | 14 |
| | 75,151 |
| Less allowance for losses | (970) |
| Total | \$ 74,181 |

6. Unavailable Revenues

The components of unavailable revenues of the general fund and PFA debt service fund as of September 30, 2018, consist of the following (expressed in thousands):

| | General | PFA Debt Service | Total |
|----------------------|-------------------|------------------|-------------------|
| Property taxes | \$ 24,965 | \$ - | \$ 24,965 |
| Income taxes | 81,887 | - | 81,887 |
| Gross receipts taxes | - | 23,444 | 23,444 |
| Total | \$ 106,852 | \$ 23,444 | \$ 130,296 |

Government of the United States Virgin Islands

Notes to Basic Financial Statements

7. Interfund Transfers

Interfund transfers for the year ended September 30, 2018, consist of the following (expressed in thousands):

| Transfers from/to | General | PFA Debt Service | PFA Capital Projects | Federal Grants | Other Governmental | Total |
|----------------------|------------------|------------------|----------------------|----------------|--------------------|-------------------|
| General | \$ - | \$ 88,412 | \$ - | \$ - | \$ - | \$ 88,412 |
| PFA Debt Service | 8,313 | - | 207 | - | - | 8,520 |
| PFA Capital Projects | - | 36 | - | - | - | 36 |
| Federal Grants | - | - | - | - | 2,643 | 2,643 |
| Other governmental | 7,755 | - | - | - | - | 7,755 |
| Other business-type | 1,000 | - | - | - | - | 1,000 |
| Total | \$ 17,068 | \$ 88,448 | \$ 207 | \$ - | \$ 2,643 | \$ 108,366 |

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfer to the general fund from other governmental funds included a \$88.4 million transfer from PFA debt service fund (a major governmental fund) representing gross receipt tax revenues available after bond debt service requirements.

Significant transfers made from the general fund include a transfer of \$8.3 million to PFA debt service fund (a major governmental fund); a transfer of \$4.4 million to PFA Special Revenue Fund (a non-major governmental fund); a transfer of \$2.0 million to the St. Croix Capital Improvement Fund (a non-major governmental fund); and a transfer of \$1.0 million to the Crisis Intervention Fund (a non-major governmental fund).

Due From/To Other Funds

| Due from/to other funds | General | PFA Capital Projects | Other Governmental | Other Business Type | Total |
|---------------------------------|------------------|----------------------|--------------------|---------------------|-------------------|
| General | \$ - | \$ - | \$ 35,861 | \$ 300 | \$ 36,161 |
| Other governmental | 28,000 | - | - | - | 28,000 |
| Total Governmental Funds | 28,000 | - | 35,861 | 300 | 64,161 |
| WICO | 7,350 | - | - | - | 7,350 |
| viNGN | - | 36,804 | - | - | 36,804 |
| Other enterprise | 248 | 325 | 2,475 | - | 3,048 |
| Total Proprietary Funds | 7,598 | 37,129 | 2,475 | - | 47,202 |
| Total | \$ 35,598 | \$ 37,129 | \$ 38,336 | \$ 300 | \$ 111,363 |

Government of the United States Virgin Islands

Notes to Basic Financial Statements

The due from/to other funds includes the following amounts the general fund owes to other funds: \$14.0 million to St. Croix Capital Improvement Fund for capital improvement projects, \$10.7 million to PFA/Office of Economic Opportunity Fund for unpaid professional services, \$4.9 million due to the Emergency Molasses Fund (a non-major governmental fund) for unpaid appropriations; \$3.5 million due to PFA special revenue fund for unpaid matching funds; and \$1.5 million due to the Elected Governor Retirement Fund.

The amount due from other funds by the general fund is mainly composed of \$24.8 million due from the District Street Lighting Fund (a non-major governmental fund) and \$2.7 million from the Bond Proceeds Fund (a non-major governmental fund).

The due to PFA Capital Projects funds includes \$36.8 million due from the Virgin Islands Next Generation Network (viNGN), a major business-type fund in connection with start-up costs of the broadband project.

The amount due to other governmental funds by the other enterprise includes \$1.0 million due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund; and \$1.1 million due from the Virgin Islands Lottery to the Virgin Islands Educational Initiative Fund consisting primarily of 15.0% of revenue derived from lottery games under contract between the Virgin Islands Lottery and private contractors be transferred to these funds.

8. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2018, include cash and cash equivalents as follows (expressed in thousands):

| | |
|------------------------------|----------|
| Unemployment insurance funds | \$ 867 |
| WICO debt service funds | 4,462 |
| <hr/> | |
| Total | \$ 5,329 |

These funds were restricted to repay loans payable to the U.S. Treasury and WICO's loan for capital asset purchases.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Component Units

Restricted assets of discretely presented component units as of September 30, 2018, include cash and cash equivalents, investments, and receivables as follows (expressed in thousands):

| | |
|--|------------|
| Cash and cash equivalents: | |
| Debt service and sinking fund requirements | \$ 36,385 |
| Endowment funds | 183 |
| HUD project funds | 1,022 |
| Revolving loan funds | 27,270 |
| Construction funds | 12,497 |
| Renewal and replacement funds | 517 |
| Other | 6,853 |
| <hr/> | |
| Total | 84,727 |
| <hr/> | |
| Investments: | |
| Debt service and sinking fund requirements | 15,980 |
| Construction funds | 18,075 |
| Endowment funds | 60,750 |
| Renewal and replacement funds | 295 |
| Revolving loan funds | 6,221 |
| Other | 554 |
| <hr/> | |
| Total | 101,875 |
| <hr/> | |
| Other: | |
| Pledged funds | 19,675 |
| <hr/> | |
| Total | \$ 206,277 |

Government of the United States Virgin Islands

Notes to Basic Financial Statements

9. Capital Assets

Primary Government

Capital assets activity for governmental activities for the year ended September 30, 2018, is summarized as follows (expressed in thousands):

| | Beginning Balance | Additions | Transfers/ Adjustment | Impairment/ Disposals | Ending Balance |
|--|----------------------|-------------------|--------------------------|--------------------------|-------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 227,558 | \$ - | \$ - | \$ - | \$ 227,558 |
| Construction in progress | 76,003 | 90,478 | (10,940) | (1,114) | 154,427 |
| Total capital assets not being depreciated | 303,561 | 90,478 | (10,940) | (1,114) | 381,985 |
| Capital assets being depreciated and amortized: | | | | | |
| Land improvements | 8,106 | - | 1,851 | - | 9,957 |
| Infrastructure | 140,786 | 2,978 | 7,584 | - | 151,348 |
| Buildings and improvements | 405,244 | 30,398 | 1,159 | (1,883) | 434,918 |
| Machinery and equipment | 201,049 | 5,628 | 346 | (701) | 206,322 |
| Total capital assets being depreciated and amortized | 755,185 | 39,004 | 10,940 | (2,584) | 802,545 |
| Less accumulated depreciation and amortization for: | | | | | |
| Land improvements | (4,870) | (340) | - | - | (5,210) |
| Infrastructure | (37,962) | (4,787) | - | - | (42,749) |
| Buildings and improvements | (196,651) | (11,462) | - | 1,129 | (206,984) |
| Machinery and equipment | (176,048) | (8,915) | - | 430 | (184,533) |
| Total accumulated depreciation and amortization | (415,531) | (25,504) | - | 1,559 | (439,476) |
| Total capital assets being depreciated and amortized, net | 339,654 | 13,500 | 10,940 | (1,025) | 363,069 |
| Total Governmental activities capital assets, net | \$ 643,215 | \$ 103,978 | \$ - | \$ (2,139) | \$ 745,054 |

Depreciation and amortization expense are charged to functions of the PG for the year ended September 30, 2018, as follows (expressed in thousands):

Governmental Activities:

| | |
|----------------------------------|------------------|
| General government | \$ 9,577 |
| Public safety | 1,933 |
| Health | 2,470 |
| Education | 3,516 |
| Public housing and welfare | 288 |
| Culture and recreation | 317 |
| Transportation and communication | 7,403 |
| Total | \$ 25,504 |

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Capital assets activity for business-type activities for the year ended September 30, 2018, is summarized as follows (expressed in thousands):

| | Beginning Balance | Additions | Transfers/ Adjustment | Impairment/ Disposals | Ending Balance |
|--|----------------------|-------------------|--------------------------|--------------------------|-------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 5,178 | \$ - | \$ - | \$ - | \$ 5,178 |
| Construction in progress | 4,844 | 1,424 | (936) | - | 5,332 |
| Total capital assets not being depreciated | 10,022 | 1,424 | (936) | - | 10,510 |
| Capital assets being depreciated and amortized: | | | | | |
| Land improvements | 348 | - | - | - | 348 |
| Buildings and improvements | 88,341 | 334 | 385 | - | 89,060 |
| Machinery and equipment | 75,544 | 2,739 | 335 | - | 78,618 |
| Intangible assets | 30,774 | - | - | - | 30,774 |
| Total capital assets being depreciated and amortized | 195,007 | 3,073 | 720 | - | 198,800 |
| Less accumulated depreciation and amortization for: | | | | | |
| Land improvements | (343) | - | - | - | (343) |
| Buildings and improvements | (41,923) | (3,608) | (2,149) | - | (47,680) |
| Machinery and equipment | (26,141) | (5,116) | 4,675 | - | (26,582) |
| Intangible assets | (3,695) | (1,014) | (2,397) | - | (7,106) |
| Total accumulated depreciation and amortization | (72,102) | (9,738) | 129 | - | (81,711) |
| Total capital assets being depreciated and amortized, net | 122,905 | (6,665) | 849 | - | 117,089 |
| Total Business-type activities capital assets, net | \$ 132,927 | \$ (5,241) | \$ (87) | \$ - | \$ 127,599 |

Depreciation and amortization expense are charged for the year ended September 30, 2018, as follows (expressed in thousands):

Business-type Activities:

| | |
|------------------------|-----------------|
| WICO | \$ 3,248 |
| viNGN | 5,080 |
| Other enterprise funds | 1,410 |
| Total | \$ 9,738 |

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Component Units

Capital assets activity for discretely presented component units for the year ended September 30, 2018, is summarized as follows (expressed in thousands):

| | Beginning Balance | Additions | Transfers | Impairment/ Disposals | Ending Balance* |
|--|----------------------|-------------------|--------------------|--------------------------|---------------------|
| Capital assets not being depreciated: | | | | | |
| Land | \$ 111,224 | \$ 1,435 | \$ 10,783 | \$ - | \$ 123,442 |
| Construction in progress | 123,676 | 562,061 | (466,723) | (1,915) | 217,099 |
| Total capital assets not being depreciated | 234,900 | 563,496 | (455,940) | (1,915) | 340,541 |
| Capital assets being depreciated and amortized: | | | | | |
| Buildings and improvements | 1,904,352 | 59,934 | 443,957 | (304,631) | 2,103,612 |
| Airport and marine terminal facilities | 174,400 | - | 9,869 | - | 184,269 |
| Personal property and equipment | 140,663 | 5,113 | (17,783) | (4,559) | 123,434 |
| Intangible assets | 2,919 | - | - | - | 2,919 |
| Total capital assets being depreciated and amortized | 2,222,334 | 65,047 | 436,043 | (309,190) | 2,414,234 |
| Less accumulated depreciation and amortization for: | | | | | |
| Buildings and improvements | (1,105,924) | (42,724) | - | 188,096 | (960,552) |
| Airport and marine terminal facilities | (137,700) | (6,126) | - | - | (143,826) |
| Personal property and equipment | (92,361) | (5,770) | - | 3,287 | (94,844) |
| Intangible assets | (2,216) | (542) | - | - | (2,758) |
| Total accumulated depreciation and amortization | (1,338,201) | (55,162) | - | 191,383 | (1,201,980) |
| Total capital assets being depreciated and amortized, net | 884,133 | 9,885 | 436,043 | (117,807) | 1,212,254 |
| Total component units capital assets, net | \$ 1,119,033 | \$ 573,381 | \$ (19,897) | \$ (119,722) | \$ 1,552,795 |

*University of the Virgin Islands Research and Technology Park Corporation (unaudited)

Depreciation and amortization expense charged by each component unit for the year ended September 30, 2018, is as follows (expressed in thousands):

| | |
|---|------------------|
| Virgin Islands Housing Authority | \$ 8,022 |
| Virgin Islands Port Authority | 16,285 |
| Virgin Islands Water and Power Authority: | |
| Electric System | 20,091 |
| Water System | 1,399 |
| Virgin Islands Government Hospital and Health Facilities Corporation: | |
| Schneider Regional Medical Center | 1,580 |
| Governor Juan F. Luis Hospital | 2,498 |
| University of the Virgin Islands | 2,587 |
| Other component units* | 2,700 |
| Total | \$ 55,162 |

*University of the Virgin Islands Research and Technology Park Corporation (unaudited)

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Hurricanes Irma and Maria

On September 6 and 19, 2017, the United States Virgin Islands were struck by two Category 5 hurricanes. The extent and severity of the storms was unprecedented and resulted in catastrophic damage to the Territory.

The PG and its component units suffered losses to office buildings and educational facilities, roads, infrastructure, and various machineries and equipment. The PG had purchased commercial insurance to cover its risk of loss from destruction of assets and realized insurance recoveries during the year of \$125.0 million.

The organizations evaluated their respective capital assets in accordance with GASB Statement No. 42 and realized their respective losses from impairment, net of insurance recoveries. In the fiscal year ended September 30, 2017, the PG recognized a loss from impairment amounting to \$221.2 million for governmental activities and \$6.1 million for business type activities.

The discretely presented component units have recognized impairment losses net of insurance recoveries for the year ended September 30, 2018, as follows (expressed in thousands):

| | |
|---|-------------|
| Virgin Islands Housing Authority | \$ (4,259) |
| Virgin Islands Port Authority | 56,225 |
| Virgin Islands Water and Power Authority: | |
| Electric System | (99,779) |
| Water System | (1,273) |
| University of the Virgin Islands | 3,547 |
| <hr/> | |
| Total | \$ (45,539) |

The amount of the impairment losses for damaged capital assets is based on calculations using a combination of the restoration cost approach and a physical verification approach. Under the restoration cost approach, the amount of impairment is derived from the estimated costs to restore the utility of the capital asset. The estimated restoration cost can be converted to historical cost either by restating the estimated restoration cost using an appropriate cost index or by applying a ratio of the estimated restoration cost over estimated replacement cost to the carrying value of the capital asset.

The organizations also conducted physical inspections of assets to determine and estimate the extent of the damages. As a result, assets fully depreciated prior to the hurricanes would have an impairment loss of zero dollars, regardless of the damage.

Actual repairs to damaged capital assets are expected to far exceed the calculated impairment losses. Any insurance recoveries received have been used to offset the impairment losses, in accordance with the guidelines of GASB Statement No. 42. The impairment losses, net of insurance recoveries received during the year, are reported as a special item in the accompanying financial statements.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

10. Long-Term Liabilities

Primary Government

The change in long-term bonds and loans for governmental activities is as follows for the year ended September 30, 2018, (expressed in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due Thereafter |
|--|----------------------|-------------------|------------------|---------------------|---------------------------|---------------------|
| Matching Funds Revenue Bonds | | | | | | |
| Series 2013 B Revenue and Refunding Bonds | \$ 41,045 | \$ - | \$ - | \$ 41,045 | \$ - | \$ 41,045 |
| Series 2013 A Revenue and Refunding Bonds | 31,470 | - | 7,555 | 23,915 | 7,905 | 16,010 |
| Series 2012 A Revenue Bonds | 140,165 | - | 900 | 139,265 | 950 | 138,315 |
| Series 2010 A and B Revenue Bonds | 388,175 | - | 2,520 | 385,655 | 2,660 | 382,995 |
| Series 2009 A Revenue Bonds (Cruzan) | 34,870 | - | 740 | 34,130 | 780 | 33,350 |
| Series 2009 A1, A2, B and C Revenue and Refunding Bonds | 287,555 | - | 30,730 | 256,825 | 32,275 | 224,550 |
| Series 2009 A Revenue Bonds (Diageo) | 232,205 | - | 5,235 | 226,970 | 5,600 | 221,370 |
| Total | 1,155,485 | - | 47,680 | 1,107,805 | 50,170 | 1,057,635 |
| Gross Receipts Revenue Bonds | | | | | | |
| Series 2018 A Revenue Bonds | - | 188,522 | - | 188,522 | - | 188,522 |
| Series 2014 D Revenue Bonds | 5,425 | - | 190 | 5,235 | 200 | 5,035 |
| Series 2014 C Revenue and Refunding Bonds | 237,500 | - | 5,240 | 232,260 | 5,510 | 226,750 |
| Series 2014 A Revenue Bonds | 46,600 | - | 1,635 | 44,965 | 1,720 | 43,245 |
| Series 2012 A and B Revenue and Refunding Bonds | 181,720 | - | 13,180 | 168,540 | 13,690 | 154,850 |
| Series 2012 C Revenue Bonds | 29,950 | - | 1,820 | 28,130 | 1,600 | 26,530 |
| Series 2006 A Revenue Bonds | 196,590 | - | 3,360 | 193,230 | 3,485 | 189,745 |
| Total | 697,785 | 188,522 | 25,425 | 860,882 | 26,205 | 834,677 |
| Tobacco Settlement Bonds | | | | | | |
| Series 2006 A, B, C and D Tobacco Turbo and Capital Appreciation Bonds | 7,290 | - | - | 7,290 | - | 7,290 |
| Series 2001 A Tobacco Bonds | 6,180 | - | 865 | 5,315 | - | 5,315 |
| Total | 13,470 | - | 865 | 12,605 | - | 12,605 |
| Federal-Aid Highway Bonds | | | | | | |
| Series 2015 Bonds | 82,080 | - | 3,470 | 78,610 | 3,645 | 74,965 |
| Total | 1,948,820 | 188,522 | 77,440 | 2,059,902 | 80,020 | 1,979,882 |
| Plus (less): | | | | | | |
| Bonds premium | 51,698 | - | 5,774 | 45,924 | - | 45,924 |
| Bonds discount | (2,475) | - | (214) | (2,261) | - | (2,261) |
| Bonds accretion | 8,013 | 1,025 | - | 9,038 | 9,038 | - |
| Total bonds payable, net | \$ 2,006,056 | \$ 189,547 | \$ 83,000 | \$ 2,112,603 | \$ 89,058 | \$ 2,023,545 |

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Notes to Basic Financial Statements

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due Thereafter |
|--|----------------------|-------------------|-------------------|---------------------|---------------------------|---------------------|
| Notes | | | | | | |
| 2016 A Note | \$ 8,723 | \$ - | \$ 2,136 | \$ 6,587 | \$ 2,136 | \$ 4,451 |
| 2014 E Revenue Note | 20,000 | - | 15,000 | 5,000 | 5,000 | - |
| 2014 B Revenue Notes | 8,000 | - | 2,000 | 6,000 | 2,000 | 4,000 |
| 2013 A Revenue Notes | 853 | - | 853 | - | - | - |
| 2012 A TIF Notes | 11,448 | - | 268 | 11,180 | 241 | 10,939 |
| 2011 B Revenue Anticipation Notes | 3,135 | - | 2,492 | 643 | 643 | - |
| Total notes payable | 52,159 | - | 22,749 | 29,410 | 10,020 | 19,390 |
| Total governmental activities bonds and notes payable | \$ 2,058,215 | \$ 189,547 | \$ 105,749 | \$ 2,142,013 | \$ 99,078 | \$ 2,042,935 |

The change in other long-term liabilities for governmental activities is as follows for the year ended September 30, 2018, (expressed in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due Thereafter |
|-----------------------------------|----------------------|------------------|---------------|-------------------|---------------------------|-------------------|
| Accrued compensated absences | \$ 36,151 | \$ 611 | \$ - | \$ 36,762 | \$ 14,317 | \$ 22,445 |
| Retroactive union arbitration | 195,286 | - | - | 195,286 | - | 195,286 |
| Litigation | 16,145 | 5,571 | 500 | 21,216 | 299 | 20,917 |
| Landfill closure and post closure | 97,923 | 4,212 | - | 102,135 | - | 102,135 |
| Total | \$ 345,505 | \$ 10,394 | \$ 500 | \$ 355,399 | \$ 14,616 | \$ 340,783 |

Accrued compensated absences, retroactive union arbitration, litigation, landfill closure and post-closure costs are generally expected to be liquidated with resources derived from the general fund.

At September 30, 2018, the PG reported other post-employment benefits (OPEB) to retirees such as health insurance liability of \$783.4 million. The OPEB liability is valued as of October 1, 2017, determined by an actuarial valuation as of that date.

The change in OPEB liabilities for governmental activities is as follows for the year ended September 30, 2018, (expressed in thousands):

| | Restated Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due Thereafter |
|-----------------------------|----------------------------------|------------------|------------------|-------------------|---------------------------|-------------------|
| Total OPEB liability | \$ 812,955 | \$ 52,120 | \$ 81,702 | \$ 783,373 | \$ - | \$ 783,373 |

At September 30, 2018, the PG reported a net pension liability of \$3.4 billion for its proportionate share of the net defined benefit pension liability administered by GERS. The net pension liability is valued as of September 30, 2017, determined by an actuarial valuation as of that date.

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Notes to Basic Financial Statements

The change in pension liabilities for governmental activities is as follows for the year ended September 30, 2018, (expressed in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due Thereafter |
|-----------------------|----------------------|-----------|------------|-------------------|---------------------------|-------------------|
| Net pension liability | \$ 3,535,517 | \$ - | \$ 180,749 | \$ 3,354,768 | \$ - | \$ 3,354,768 |

The changes in long-term liabilities for business-type activities are as follows for the year ended September 30, 2018, (expressed in thousands):

| | Restated Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due Thereafter |
|------------------------------|----------------------------------|-----------|------------|-------------------|------------------------|-------------------|
| Workers compensation claims | \$ 40,462 | \$ - | \$ 4,468 | \$ 35,994 | \$ 5,005 | \$ 30,989 |
| Loan payable - U.S. Treasury | 66,994 | 15,646 | 14,050 | 68,590 | 68,590 | - |
| Compensated absences - WICO | 1,817 | 246 | 87 | 1,976 | 176 | 1,800 |
| Loan payable - WICO | 42,666 | 566 | 586 | 42,646 | 820 | 41,826 |
| Total | \$ 151,939 | \$ 16,458 | \$ 19,191 | \$ 149,206 | \$ 74,591 | \$ 74,615 |

Debt Margin

Pursuant to 48 U.S.C. Section 1574(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is more than 10.0% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to 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 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b).

On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds.

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As used in Title 2 of the V.I. Code Section 256, the term “debt” means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term “debt” does not include that portion of principal or interest on bonds that is not yet due and payable.

(a) Bonds Payable

Bonds payable outstanding at September 30, 2018, are comprised of the following (expressed in thousands):

| | Maturity | Interest Rate (%) | Balance |
|--|-------------|-------------------|---------------------|
| Matching Funds Revenue Bonds | | | |
| Series 2013 B Revenue and Refunding Bonds | 2018 - 2024 | 3.00 - 5.00 | \$ 41,045 |
| Series 2013 A Revenue and Refunding Bonds | 2018 - 2024 | 5.00 - 5.25 | 23,915 |
| Series 2012 A Revenue Bonds | 2022 - 2032 | 4.00 - 5.00 | 139,265 |
| Series 2010 A and B Revenue Bonds | 2012 - 2029 | 4.00 - 5.25 | 385,655 |
| Series 2009 A Revenue Bonds (Cruzan) | 2010 - 2039 | 3.00 - 6.00 | 34,130 |
| Series 2009 A1, A2, B and C Revenue and Refunding Bonds | 2010 - 2039 | 3.00 - 5.00 | 256,825 |
| Series 2009 A Revenue Bonds (Diageo) | 2014 - 2037 | 6.00 - 6.75 | 226,970 |
| Total | | | 1,107,805 |
| Gross Receipts Revenue Bonds | | | |
| Series 2018 A Revenue Bonds | 2022 - 2037 | 2.86 - 3.19 | 188,522 |
| Series 2014 D Revenue Bonds | 2015 - 2033 | 6.03 | 5,235 |
| Series 2014 C Revenue and Refunding Bonds | 2015 - 2044 | 4.50 - 5.00 | 232,260 |
| Series 2014 A Revenue Bonds | 2015 - 2034 | 5.00 | 44,965 |
| Series 2012 A and B Revenue and Refunding Bonds | 2017 - 2032 | 2.25 - 5.25 | 168,540 |
| Series 2012 C Revenue Bonds | 2017 - 2042 | 3.00 - 5.00 | 28,130 |
| Series 2006 A Revenue Bonds | 2007 - 2029 | 3.50 - 5.00 | 193,230 |
| Total | | | 860,882 |
| Tobacco Settlement Bonds | | | |
| 2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds | 2035 | 6.25 - 7.63 | 7,290 |
| 2001 Series A Tobacco Bonds | 2031 | 4.62 - 5.13 | 5,315 |
| Total | | | 12,605 |
| Federal-Aid Highway Bonds | | | |
| Series 2015 Bonds | 2016 - 2033 | 3.00 - 5.00 | 78,610 |
| Total bonds payable | | | 2,059,902 |
| Plus (Less): | | | |
| Bonds premium | | | 45,924 |
| Bonds discount | | | (2,261) |
| Bonds accretion | | | 9,038 |
| Total bonds payable, net | | | \$ 2,112,603 |

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Notes to Basic Financial Statements

Matching Funds Revenue Bonds

Series 2013 B Revenue and Refunding Bonds

On October 17, 2013, PFA 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 PFA. 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 in 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 October 1, 2014, the outstanding principal of the Series 2004 A Bonds was defeased through a call redemption amounting to \$58,835,000.

Interest on the Series 2013 B Revenue and Refunding 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 Revenue and Refunding 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.

The Series 2013 B Revenue and Refunding Bonds are not redeemable at the option of PFA.

Series 2013 A Revenue and Refunding Bonds

On September 19, 2013, PFA 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 PFA. 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.

Interest on the Series 2013 A Revenue and Refunding 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 Revenue and Refunding 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.

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The Series 2013 A Revenue and Refunding Bonds are not redeemable at the option of PFA.

Series 2012 A Revenue Bonds

On September 7, 2012, PFA 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 PFA. 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%.

Interest on the Series 2012 A Revenue 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 Revenue 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.

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

| <u>Series 2012 A Revenue Bonds</u> | <u>Price</u> |
|------------------------------------|--------------|
| October 1, 2023 and thereafter | 100% |

Series 2010 A and B Revenue Bonds

On July 8, 2010, PFA 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 PFA. 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 4.0% to 5.0%. 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%.

Interest on the Series 2010 A and B Revenue 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 Revenue Bonds.

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Notes to Basic Financial Statements

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. The bonds were fully defeased through an optional redemption on October 1, 2014.

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

| Series 2010 A and B Revenue Bonds | Price |
|--|--------------|
| October 1, 2021 and thereafter | 100% |

Series 2009 A Revenue Bonds (Cruzan)

On December 17, 2009, PFA issued the Series 2009 A Revenue 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 PFA 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 3.0% to 6.0% 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 Revenue Bonds, PFA 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.

Interest on the Series 2009 A Revenue 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 Revenue 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.

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

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

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Notes to Basic Financial Statements

Series 2009 A1, A2, B and C Revenue and Refunding Bonds

On October 1, 2009, PFA issued the Series 2009 A1, A2, B, and 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 PFA.

The Series 2009 A1 and A2 Revenue and Refunding 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 A2 Revenue and Refunding Bonds. The Series 2009 A1 Revenue and Refunding Bonds amounted to \$86,350,000 and mature from 2010 to 2039 at interest rates from 3.0% to 5.0%. The Series 2009 A2 Revenue and Refunding Bonds amount to \$8,650,000 and mature from 2010 to 2011 at an interest rate of 3.0%.

The Series 2009 B Revenue and Refunding Bonds were issued to: (i) refund the Series 1998 A Revenue and Refunding Bonds (Senior Lien/Refunding Bonds), (ii) fund the Series 2009 B Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 B Revenue and Refunding Bonds. The Series 2009 B Revenue and Refunding Bonds amount to \$266,330,000 and mature from 2010 to 2025 at an interest rate of 5.0%.

The Series 2009 C Revenue and Refunding Bonds were issued to: (i) 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 Revenue and Refunding Bonds. The Series 2009 C Revenue and Refunding Bonds amounted to \$97,510,000 and mature from 2010 to 2022 at an interest rate of 5.0%. The Series 2009 C Revenue and Refunding Bonds are subject to optional redemption by PFA 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.

Interest on the Series 2009 A1, A2, B and C Revenue and Refunding 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 Revenue and Refunding 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.

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

| Series 2009 A1, A2, B and C Revenue and Refunding Bonds | Price |
|--|--------------|
| October 1, 2019 and thereafter | 100% |

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Series 2009 A Revenue Bonds (Diageo)

On July 9, 2009, PFA issued the Series 2009 A Revenue 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 2014 to 2037. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of PFA.

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 Revenue Bonds, and (v) finance certain costs of issuance of the Series 2009 A Revenue Bonds. The Series 2009 A Bonds maturing on or after October 1, 2020 shall be subject to optional redemption on or after October 1, 2019, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

In association with the Series 2009 A Revenue Bonds, PFA 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%.

Interest on the Series 2009 A Revenue 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 Revenue 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.

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

| <u>Series 2009 A Revenue Bonds (Diageo)</u> | <u>Price</u> |
|---|--------------|
| October 1, 2020 and thereafter | 100% |

Pledged Funds

The Government has pledged the Matching Funds Revenues, as described below, to the timely payment of principal and interest on 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 Revenue Bonds (Cruzan), the Series 2009 A1, A2, B and C Revenue and Refunding Bonds, and the Series 2009 A Revenue Bonds (Diageo).

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Thus, all amounts to be received by the Government from federal rum excise tax are deposited directly in a trust account from which the 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.

The rate of federal rum excise tax is determined by Congress. In November 1999, Congress increased the federal rum excise tax rate from \$10.50 to \$13.25 per proof gallon. Since then, Congress has extended the higher rate nine times. On February 9, 2018, Congress extended the rate to December 31, 2021 with the enactment of the Bipartisan Budget Act of 2018.

In fiscal year 2018, pledged matching rum excise tax revenues represented 48.0% of total rum excise revenues. Payments of Matching Fund Revenue Bonds principal and interest from matching rum excise tax revenues amounted to \$47.7 million and \$60.8 million, respectively.

Gross Receipts Revenue Bonds

Series 2018 A Revenue Bonds

On July 1, 2018, PFA issued the Series 2018 A Revenue Bonds in a private placement to the Federal Emergency Management Agency (“FEMA”). The bonds secure certain Community Disaster Loans (“CDLs”) drawn following Hurricanes Irma and Maria in the United States Virgin Islands in September 2017. These bonds are secured by the pledge of gross receipts tax revenue. The Series 2018 A Revenue Bonds were issued to (i) finance essential functions of the Government’s operations following the hurricanes in the amount of \$145.0 million, (ii) finance the operations of the Roy L. Schneider Hospital on the island of St. Thomas in the amount of \$28.0 million, (iii) finance the operations of Governor Juan F. Luis Hospital and Medical Center on the island of St. Croix in the amount of \$42.0 million, and (iv) fund certain debt service reserve requirements of the bond issuance.

The bonds are subject to optional redemption by PFA at any time at a redemption price of 100% of the principal amount thereof, plus interest accrued through the redemption date. Interest payments commence October 1, 2019, with interest-only payments through October 1, 2022, calculated on a 360-day year consisting of twelve 30-day months. The Series 2018 A bonds mature in 2037. Interest accruing during the deferral period, from the date of each drawdown through September 30, 2019, bear interest beginning October 1, 2019 equal to the draws on the loan. Semi-annual interest and principal payments are due April 1 and October 1. The Government may request cancellation of the repayment of the CDLs if certain financial conditions exist three fiscal years following the date of the disaster.

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Interest on the Series 2018 A Revenue Bonds is payable semi-annually on April 1 and October 1, and the principal is payable commencing October 1, 2022. The Government is responsible for all principal and interest payments on the Series 2018 A Revenue Bonds. The principal and interest payments on October 1 are funded by pledged Gross Receipts Taxes and determined and deposited into the debt service reserve accounts, which are also funded by Gross Receipts Taxes.

The Series 2018 A Revenue Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

| <u>Series 2018 A Revenue Bonds</u> | <u>Price</u> |
|------------------------------------|--------------|
| Any time prior to maturity | 100% |

2014 Series D Revenue Bonds

On December 3, 2014, PFA 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 Revenue Bonds were issued to (i) finance certain costs associated with the broadband expansion program, (ii) fund the debt service reserve of the Series 2014 D Bonds in an amount necessary to meet debt service requirements, and (iii) pay the costs of issuance related to the Series 2014 D Bonds accounts. The Series 2014 D Bonds mature in 2033 at an interest rate of 6.03%.

Interest on the Series 2014 D Revenue Bonds is payable semi-annually on April 1 and October 1, and the principal is payable in total on October 1, 2033. The Government is responsible for all principal and interest payments on the Series 2014 D Revenue 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.

The Series 2014 D Revenue Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

| <u>Series 2014 D Revenue Bonds</u> | <u>Price</u> |
|------------------------------------|--|
| Any time prior to maturity | 100% Mark-Whole Redemption Price |

Series 2014 C Revenue and Refunding Bonds

On November 14, 2014, PFA 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 Revenue and Refunding 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, 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 4.5% to 5.0%.

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Notes to Basic Financial Statements

The proceeds of the Series 2014 C Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2016 to 2034 maturities of the Series 2003 A Bonds. Approximately \$235,249,196 of bond proceeds were deposited into the Escrow Fund accounts. On December 1, 2014, the Series 2003 A bonds were defeased through the exercise of call redemptions.

Interest on the Series 2014 C Revenue and Refunding 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 C Revenue and Refunding 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.

The Series 2014 C Revenue and Refunding Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

| <u>Series 2014 C Revenue and Refunding Bonds</u> | <u>Price</u> |
|--|--------------|
| October 1, 2024 and thereafter | 100% |

Series 2014 A Revenue Bonds

On September 5, 2014, PFA 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 PFA 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 Revenue Bonds mature from 2015 to 2034 at an interest rate of 5.0%.

Interest on the Series 2014 A Revenue 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 Revenue 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.

The Series 2014 A Revenue Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

| <u>Series 2014 A Revenue Bonds</u> | <u>Price</u> |
|------------------------------------|--------------|
| October 1, 2024 and thereafter | 100% |

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Notes to Basic Financial Statements

Series 2012 A and B Revenue and Refunding Bonds

On November 20, 2012, PFA 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 2012 A Revenue and Refunding 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 Revenue and Refunding 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 Revenue and Refunding Bonds. The Series 2012 A Bonds mature from 2017 to 2032 at an interest rate of 2.25% to 5.00%.

The Series 2012 B Revenue and Refunding 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 Revenue and Refunding 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 Revenue and Refunding Bonds. The Series 2012 B Revenue and Refunding Bonds mature in 2027 at an interest rate of 5.25%.

The current refunding of the Series 1999 A Bonds, on November 20, 2012, was made in order to obtain lower interest rates. The economic gain obtained by this current refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately \$11.9 million and an economic gain of approximately \$7.7 million.

Interest on the Series 2012 A and B Revenue and Refunding 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 Revenue and Refunding 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.

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

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

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Series 2012 C Revenue Bonds

On December 19, 2012, PFA 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 Revenue Bonds mature from 2017 to 2042 at an interest rate of 3.0% to 5.0%.

Interest on the Series 2012 C Revenue 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 Revenue 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.

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

| <u>Series 2012 C Revenue Bonds</u> | <u>Price</u> |
|------------------------------------|--------------|
| October 1, 2030 and thereafter | 100% |

Series 2006 A Revenue Bonds

On September 28, 2006, PFA issued the Series 2006 A Revenue 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 PFA. The bonds bear interest at 3.5% to 5.0% and mature from 2007 to 2029.

The proceeds of the bonds were issued to: (i) refund a portion of PFA'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 Revenue Bonds and (vi) fund a net payment reserve account for a new swap agreement. The Series 2006 A Revenue 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.

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The proceeds of the Series 2006 A Revenue 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. At September 30, 2017, the Series 1999A Revenue Bonds were fully defeased.

Interest on the Series 2006 A Revenue 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 Revenue 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.

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

| Series 2006 A Revenue Bonds | Price |
|------------------------------------|--------------|
| October 1, 2016 and thereafter | 100% |

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 2018 A Revenue Bonds, Series 2016 A Notes, Series 2014 E Revenue Note, Series 2014 D Revenue Bonds, Series 2014 C Revenue and Refunding Bonds, Series 2014 B Revenue Notes, Series 2014 A Revenue Bonds, Series 2013 A Revenue Notes, Series 2012 C Revenue Bonds, Series 2012 A and B Revenue and Refunding Bonds, and the Series 2006 A Revenue 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.

In fiscal year 2018, pledged gross receipts tax revenues represented 45.7% of total gross receipt tax revenues. Payment of Gross Receipts Revenue Bonds and Notes principal and interest from pledged gross receipts taxes amounted to \$48.2 million and \$36.7 million, respectively.

Tobacco Settlement Bonds

2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds

On March 15, 2006, TSFC issued the 2006 Tobacco Settlement Financing Corporation Asset-Backed Bonds, Subordinated Series 2006 (Turbo Capital Appreciation Bonds) amounting to \$48,145,000, with an issue value of \$7,290,009 net of accretion of \$40,854,991. The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture and TSFC's rights under the purchase agreement. The proceeds have been used for the purpose of (i) to finance several capital, hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) to pay certain costs of issuing the Series 2006 Bonds, and (iii) to fund operating costs associated with the Series 2006 Bonds.

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Interest on the Series 2006 Bonds is not paid currently but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006, and is paid at maturity or upon prior redemption, provided however that the 2001 Series Bonds have been paid in full.

2001 Series A Tobacco Bonds

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Financing Corporation Asset-Backed Bonds (Term and Capital Appreciation Bonds) amounting to \$23,685,000, with an issue value of \$21,709,862 net of accretion of \$1,975,138. The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture, and TSFC's rights under the purchase agreement. The proceeds have been used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the MSA entered into by participating cigarette manufacturers, (ii) issuing Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) providing funds for hospital and healthcare projects in the United States Virgin Islands.

Interest on the Series 2001 Bonds is payable semi-annually on each May and November 15, beginning with May 2002 for the Term Bonds. The Corporation is responsible for all principal and interest payments on the bonds. The convertible Capital Appreciation Bonds will accrete interest prior to November 15, 2007 and will accrue interest subsequent to that date. Interest will compound on May and November 15.

Federal-Aid Highway Bonds

On December 15, 2015, PFA issued the Series 2015 Federal-Aid Highway Bonds (the "Series 2015 Bonds"), the proceeds of which amounted to \$89,880,000. These bonds are secured by a lien on a security interest in, the Trust Estate, which includes, all rights and interests in (i) the Federal Highway Grant Revenues, (ii) subject to the limitations set forth in the Indenture, the Transportation Trust Fund and the Pledged Transportation Trust Fund Revenues, (iii) the amounts on deposit in certain funds and accounts created under the Indenture, including Debt Service Reserve Fund and (iv) the Loan Agreement and the Loan Note. The bonds are limited special obligations of PFA. The Series 2015 Bonds were issued to (i) finance costs of certain highway capital projects, (ii) establish debt service reserves, and (iii) pay the costs of issuance related to the Series 2015 Bonds. The Series 2015 Bonds mature from 2016 to 2033 at an interest rate of 3.0% to 5.0%.

Interest on the Series 2015 Bonds is payable semi-annually on March 1 and September 1, and principal is payable annually on September 1. The Government is responsible for all principal and interest payments on the Series 2015 Bonds. The principal and interest payments on September 1 are funded by the Federal Highway Grant Revenues, and the required investment to meet the March 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Federal Highway Grant Revenues.

The Series 2015 Bonds maturing after the dates below are redeemable at the option of PFA, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

| Series 2015 Bonds | Price |
|----------------------------------|--------------|
| September 1, 2025 and thereafter | 100% |

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Pledged Funds

The Government has pledged the Federal Highway Grant Revenues, as described below, to the timely payment of principal and interest on the Series 2015 Bonds. The Federal Highway Administration's Puerto Rico Division and the Government's Department of Public Works and PFA, have entered into a Memorandum of Understanding, dated December 9, 2015, documenting the procedures, roles, and responsibilities for (i) programming and authorizing the Approved Projects, (ii) supervising the construction of the Approved Projects, (iii) paying debt service on the Bonds and other Bond Related Charges, and (iv) establishing the funding, transfer, and disbursement process for the proceeds of the Bonds.

Advance Refunding/Defeasances

On June 15, 1992, PFA issued the Series 1992 Revenue Bonds. The proceeds of the Series 1992 Revenue Bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue Bonds. At September 30, 2018, \$2.2 million of the 1989 defeased bonds were outstanding. Assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government's basic financial statements.

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Future debt service requirements for bonds for which matching funds have been pledged are as follows (expressed in thousands):

| | Governmental Activities - Matching Funds Revenue Bonds | | | | | | | | | | |
|----------------|--|-------------------|-----------------------------------|------------------|-----------------------------|------------------|-----------------------------|-----------------|--------------------------------------|------------------|--|
| | 2009 Series A Revenue Bonds (Diageo) | | 2009 Series A1 & A2 Revenue Bonds | | 2009 Series B Revenue Bonds | | 2009 Series C Revenue Bonds | | 2009 Series A Revenue Bonds (Cruzan) | | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | |
| Maturity Year: | | | | | | | | | | | |
| 2019 | \$ 5,600 | \$ 15,022 | \$ 1,915 | \$ 3,563 | \$ 21,500 | \$ 6,413 | \$ 8,860 | \$ 2,005 | \$ 780 | \$ 2,013 | |
| 2020 | 5,990 | 14,631 | 2,000 | 3,481 | 22,600 | 5,311 | 9,145 | 1,555 | 820 | 1,973 | |
| 2021 | 6,405 | 14,216 | 2,090 | 3,388 | 23,760 | 4,152 | 8,415 | 1,116 | 865 | 1,926 | |
| 2022 | 6,845 | 13,777 | 2,195 | 3,286 | 24,975 | 2,934 | 10,345 | 647 | 920 | 1,872 | |
| 2023 | 7,315 | 13,308 | 2,300 | 3,179 | 9,650 | 2,068 | 7,770 | 194 | 975 | 1,815 | |
| 2024-2028 | 44,800 | 58,301 | 13,320 | 14,079 | 36,535 | 3,102 | - | - | 5,875 | 8,092 | |
| 2029-2033 | 62,485 | 40,622 | 17,085 | 10,312 | - | - | - | - | 7,930 | 6,036 | |
| 2034-2038 | 87,530 | 15,567 | 21,935 | 5,459 | - | - | - | - | 10,700 | 3,262 | |
| 2039-2043 | - | - | 10,430 | 528 | - | - | - | - | 5,265 | 321 | |
| Total | \$ 226,970 | \$ 185,444 | \$ 73,270 | \$ 47,275 | \$ 139,020 | \$ 23,980 | \$ 44,535 | \$ 5,517 | \$ 34,130 | \$ 27,310 | |

| | Governmental Activities - Matching Funds Revenue Bonds | | | | | | | | | | | |
|----------------|--|-------------------|-----------------------------|------------------|-----------------------------|------------------|----------------------------|-----------------|-----------------------------|-----------------|---------------------------------|-------------------|
| | 2010 Series A Revenue Bonds | | 2010 Series B Revenue Bonds | | 2012 Series A Revenue Bonds | | 2013 Series A Revenue Bond | | 2013 Series B Revenue Bonds | | Total Matching Excise Tax Bonds | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| Maturity Year: | | | | | | | | | | | | |
| 2019 | \$ 2,660 | \$ 14,514 | \$ - | \$ 4,833 | \$ 950 | \$ 6,890 | \$ 7,905 | \$ 1,028 | \$ - | \$ 2,052 | \$ 50,170 | \$ 58,333 |
| 2020 | 2,800 | 14,377 | - | 4,833 | 1,000 | 6,851 | 2,335 | 770 | 6,035 | 1,902 | 52,725 | 55,684 |
| 2021 | 2,955 | 14,233 | 1,050 | 4,811 | 1,100 | 6,809 | 2,460 | 645 | 6,335 | 1,592 | 55,435 | 52,888 |
| 2022 | 3,115 | 14,082 | - | 4,789 | 1,150 | 6,764 | 2,590 | 515 | 6,655 | 1,267 | 58,790 | 49,933 |
| 2023 | 19,890 | 13,507 | 2,705 | 4,721 | 1,250 | 6,716 | 2,725 | 377 | 6,985 | 927 | 61,565 | 46,812 |
| 2024-2028 | 159,950 | 48,636 | 61,065 | 15,881 | 7,500 | 32,566 | 5,900 | 310 | 15,035 | 761 | 349,980 | 181,728 |
| 2029-2033 | 100,235 | 5,074 | 29,230 | 1,555 | 126,315 | 21,849 | - | - | - | - | 343,280 | 85,448 |
| 2034-2038 | - | - | - | - | - | - | - | - | - | - | 120,165 | 24,288 |
| 2039-2043 | - | - | - | - | - | - | - | - | - | - | 15,695 | 849 |
| Total | \$ 291,605 | \$ 124,423 | \$ 94,050 | \$ 41,423 | \$ 139,265 | \$ 88,445 | \$ 23,915 | \$ 3,645 | \$ 41,045 | \$ 8,501 | \$ 1,107,805 | \$ 555,963 |

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Future debt service requirements for bonds for which gross receipts taxes have been pledged are as follows (expressed in thousands):

| Governmental Activities - Gross Receipts Revenue Bonds | | | | | | | | | | | | |
|--|--------------------------------|------------------|--------------------------------|------------------|--------------------------------|-----------------|--------------------------------|------------------|--------------------------------|------------------|--------------------------------|-------------------|
| | 2006 Series A Revenue Bonds | | 2012 Series A Revenue Bonds | | 2012 Series B Revenue Bonds | | 2012 Series C Revenue Bonds | | 2014 Series A Revenue Bonds | | 2014 Series C Revenue Bonds | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| Maturity Year: | | | | | | | | | | | | |
| 2019 | \$ 3,485 | \$ 9,252 | \$ 11,835 | \$ 6,725 | \$ 1,855 | \$ 1,200 | \$ 1,600 | \$ 1,367 | \$ 1,720 | \$ 2,205 | \$ 5,510 | \$ 11,416 |
| 2020 | 3,615 | 9,075 | 12,380 | 6,241 | 1,955 | 1,100 | 1,685 | 1,284 | 1,810 | 2,117 | 5,790 | 11,134 |
| 2021 | 15,865 | 8,667 | 800 | 5,977 | 2,065 | 994 | 1,770 | 1,198 | 1,900 | 2,024 | 6,065 | 10,837 |
| 2022 | 16,295 | 7,943 | 1,140 | 5,939 | 2,175 | 883 | 1,860 | 1,107 | 2,000 | 1,927 | 6,385 | 10,526 |
| 2023 | 16,895 | 7,113 | 1,430 | 4,581 | 2,290 | 2,072 | 1,955 | 1,012 | 2,100 | 1,824 | 6,705 | 10,199 |
| 2024-2028 | 94,300 | 22,006 | 40,420 | 23,888 | 13,445 | 2,527 | 2,385 | 4,529 | 12,240 | 7,390 | 35,215 | 45,754 |
| 2029-2033 | 42,775 | 1,913 | 76,750 | 10,000 | - | 78 | 3,680 | 3,820 | 15,720 | 3,912 | 112,645 | 31,116 |
| 2034-2038 | - | - | - | - | - | - | 5,775 | 2,606 | 7,475 | 378 | 39,340 | 4,905 |
| 2039-2043 | - | - | - | - | - | - | 7,420 | 964 | - | - | 7,555 | 2,482 |
| 2044-2048 | - | - | - | - | - | - | - | - | - | - | 7,050 | 322 |
| Total | \$ 193,230 | \$ 65,969 | \$ 144,755 | \$ 63,351 | \$ 23,785 | \$ 8,854 | \$ 28,130 | \$ 17,887 | \$ 44,965 | \$ 21,777 | \$ 232,260 | \$ 138,691 |

| Governmental Activities - Gross Receipts Revenue Bonds | | | | | | | | | | | |
|--|--------------------------------|-----------------|----------------------------------|-------------------|----------------------------------|------------------|----------------------------------|------------------|-----------------------------------|-------------------|-------------------|
| | 2014 Series D Revenue Bonds | | 2018 Series A-1 Revenue Bonds | | 2018 Series A-2 Revenue Bonds | | 2018 Series A-3 Revenue Bonds | | Total Gross Receipts Tax Bonds | | |
| | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest | |
| Maturity Year: | | | | | | | | | | | |
| 2019 | | \$ 200 | \$ 310 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 26,205 | \$ 32,475 |
| 2020 | | 215 | 297 | - | 4,189 | - | 468 | - | 909 | 27,450 | 36,814 |
| 2021 | | 225 | 284 | - | 4,189 | - | 468 | - | 820 | 28,690 | 35,458 |
| 2022 | | 240 | 270 | - | 4,189 | - | 468 | - | 819 | 30,095 | 34,071 |
| 2023 | | 255 | 255 | 2,983 | 6,655 | 187 | 738 | 840 | 1,193 | 35,640 | 35,642 |
| 2024-2028 | | 1,535 | 1,016 | 23,074 | 20,005 | 2,109 | 2,321 | 5,890 | 3,673 | 230,613 | 133,109 |
| 2029-2033 | | 2,075 | 475 | 32,016 | 14,625 | 3,083 | 1,752 | 6,532 | 2,581 | 295,276 | 70,272 |
| 2034-2038 | | 490 | 15 | 86,927 | 6,380 | 10,553 | 801 | 14,328 | 1,080 | 164,888 | 16,165 |
| 2039-2043 | | - | - | - | - | - | - | - | - | 14,975 | 3,446 |
| 2044-2048 | | - | - | - | - | - | - | - | - | 7,050 | 322 |
| Total | | \$ 5,235 | \$ 2,922 | \$ 145,000 | \$ 60,232 | \$ 15,932 | \$ 7,016 | \$ 27,590 | \$ 11,075 | \$ 860,882 | \$ 397,774 |

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Future debt service requirements for bonds for which tobacco settlement revenues have been pledged are as follows (expressed in thousands):

| Maturity Year | Principal | Interest |
|-----------------------|------------------|-----------------|
| 2019 | \$ - | \$ 266 |
| 2020 | - | 266 |
| 2021 | - | 266 |
| 2022 | - | 266 |
| 2023 | - | 265 |
| 2024-2028 | - | 1,329 |
| 2029-2033 | 5,315 | 797 |
| 2034-2038 | 7,290 | - |
| Plus future accretion | 9,038 | - |
| Total | \$ 21,643 | \$ 3,455 |

Future debt service requirements for bonds for which federal-aid highway grant revenues have been pledged are as follows (expressed in thousands):

| Maturity Year | Principal | Interest |
|---------------|------------------|------------------|
| 2019 | \$ 3,645 | \$ 3,931 |
| 2020 | 3,825 | 3,748 |
| 2021 | 4,015 | 3,557 |
| 2022 | 4,220 | 3,356 |
| 2023 | 4,430 | 3,145 |
| 2024-2028 | 25,685 | 12,175 |
| 2029-2033 | 32,790 | 5,079 |
| Total | \$ 78,610 | \$ 34,991 |

(b) Loans and Notes Payable

2016 A Notes

On October 1, 2016, PFA issued two Subordinate Lien Revenue Notes, Series 2016 A (Virgin Islands Gross Receipts Taxes Loan Notes-Emergency First Responder Project), collectively the "Series 2016 A Notes" in an aggregate amount of up to \$10,000,000 to: (i) finance the acquisition of public safety vehicles and related equipment (the "Series 2016A-1 Project"), and (ii) to finance certain consulting services for the improvement of public safety and security in the Virgin Islands, (the "Series 2016A-2 Project"), and (iii) to pay certain costs incidental to the issuance of the Series 2016 A Notes. The Series 2016 A Notes matures in 2021 with variable interest rates based on the 90-day London Interbank Offered Rate ("LIBOR") plus 375 basis points. The Series 2016 A Notes are subject to prepayment by PFA in whole or in part at any time upon 100% payment of the outstanding principal plus interest accrued to the prepayment date. As of September 30, 2018, the outstanding balance was \$6.6 million.

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Future debt service requirements for the 2016 A Notes are as follows (expressed in thousands):

| <u>Maturity Year</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------|------------------|-----------------|
| 2019 | \$ 2,136 | \$ 275 |
| 2020 | 2,136 | 170 |
| 2021 | 2,137 | 65 |
| 2022 | 178 | 1 |
| Total | \$ 6,587 | \$ 511 |

Series 2014 E Revenue Notes

On December 4, 2014, PFA 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 Revenue Notes”). The purpose of the 2014 E Revenue 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 Revenue Notes. As of September 30, 2018, the outstanding balance was \$5.0 million.

Future debt service requirements for the 2014 E Revenue Notes are as follows (expressed in thousands):

| <u>Maturity Year</u> | <u>Principal</u> |
|----------------------|------------------|
| 2019 | \$ 5,000 |

2014 B Revenue Notes

On September 12, 2014, PFA 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 Revenue Notes”). The proceeds of the Series 2014 B Revenue 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. As of September 30, 2018, the outstanding balance was \$6.0 million.

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Future debt service requirements for the 2014 B Revenue Notes are as follows (expressed in thousands):

| <u>Maturity Year</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------|------------------|-----------------|
| 2019 | \$ 2,000 | \$ 314 |
| 2020 | 2,000 | 177 |
| 2021 | 2,000 | 62 |
| <hr/> | | |
| Total | \$ 6,000 | \$ 553 |

2013 A Revenue Notes

On May 14, 2013, PFA 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 Revenue Notes”). The proceeds of the Series 2013 A Revenue 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 Revenue 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, 2018, PFA had drawn \$6.7 million of loan funds all of which had been repaid.

2012 A TIF Notes

On September 25, 2009, PFA 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 PFA. 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.

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Under the terms of the 2009 A TIF Notes, PFA 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 December 5, 2016, a redemption of \$1.0 million of the Series 2012 A TIF Notes was made directly by the Government, pursuant to the Series 2012A Term Loan Indenture of Trust.

On September 24, 2012, PFA 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"). PFA sold \$13,700,000 in 2012 A TIF Notes to the local bank and loaned that amount to the Government. 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 TIF Notes. Incremental Tax Revenue will be deposited into the Island Crossing Tax Increment Trust account in accordance with the Loan Agreement.

Future debt service requirements for the 2012 A TIF Notes are as follows (expressed in thousands):

| <u>Maturity Year</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------|------------------|-----------------|
| 2019 | \$ 241 | \$ 856 |
| 2020 | 10,939 | - |
| Total | \$ 11,180 | \$ 856 |

2011 B Revenue Anticipation Notes

On November 14, 2011, PFA 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 PFA 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. Surplus property tax receipts will be deposited into the Special Real Property Tax Receipts Fund account in accordance with the Loan Agreement.

The 2011 B Revenue Anticipation Notes have a term of five years, with interest rate of 4.9% and a maturity date of December 15, 2016. After the five-year term of the 2011 B Revenue Anticipation Notes, the loan converted to a term loan.

Future debt service requirements for the 2011 B Revenue Anticipation Notes are as follows (expressed in thousands):

| <u>Maturity Year</u> | <u>Principal</u> | <u>Interest</u> |
|----------------------|------------------|-----------------|
| Total | \$ 643 | \$ 6 |

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(c) Loan Payable - U.S. Treasury

In August 2009, the Territory reserve balance of the Unemployment Trust Fund (UTF) became inadequate to cover expenditures for unemployment compensation (UC) benefits. UC benefits are an entitlement program administered through the U.S. Treasury and the PG is legally liable to pay benefits even if the UTF becomes insolvent. As of September 30, 2018, the PG owed \$68.6 million to the U.S. Treasury.

The loan was subject to interest at federal rates of 2.2124% through December 31, 2017 and 2.2153% after January 1, 2018. During 2018, the PG paid \$1.6 million in interest to the U.S. Treasury on the UTF loans and additional borrowing of \$15.6 million. The additional borrowing was due to claims for Disaster Unemployment Assistance (DUA) that was extended following two Category 5 hurricanes in 2017.

(d) Loan Payable - The West Indian Company Limited

In July 2017, WICO consolidated various loans with Banco Popular de Puerto Rico 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 date of July 2022. Upon maturity, should WICO stay in compliance with the current terms of the loan, it may refinance the loan for a term not to exceed twenty (20) years, subject to new terms and conditions.

WICO may prepay the loan, however there is a prepayment penalty of 2.0% of the outstanding principal of the loan. Security and collateral for the loan include a first-priority security interest in WICO's assets and a pledge of WICO's 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 PG.

Future principal payments on the loan are as follows:

| Maturity Year | Principal | Interest | Total |
|---------------|---------------|--------------|---------------|
| 2019 | \$ 820,377 | \$ 2,250,013 | \$ 3,070,390 |
| 2020 | 858,914 | 2,211,476 | 3,070,390 |
| 2021 | 911,978 | 2,158,412 | 3,070,390 |
| 2022 | 40,055,303 | 1,931,573 | 41,986,876 |
| Total | \$ 42,646,572 | \$ 8,551,474 | \$ 51,198,046 |

(e) Insurance Guaranty Fund Minimum Balance Requirement

Under Title 22, Chapter 10 of the VIC, the Virgin Islands Insurance Guaranty Fund is required to maintain a minimum balance of \$50.0 million for claimant payments in the event of a failure of an insurance carrier. On February 10, 2012, legislation was enacted authorizing a reduction in the minimum balance to be held by the Virgin Islands Insurance Guaranty Fund from \$50.0 million to \$10.0 million. Effective September 30, 2019, in the event the balance in the Insurance Guaranty Fund equals or exceeds \$50.0 million, amounts in excess thereof shall be deposited, at the direction of the Commissioner of Finance, into the General Fund.

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Component Units

Bonds payable of discretely presented component units are those liabilities that are paid out of resources pledged by such entities. Bonds payable, outstanding at September 30, 2018, are as follows (expressed in thousands):

| | Maturity | Interest Rate (%) | Balance |
|---|----------|-------------------|------------|
| Bonds Payable | | | |
| Virgin Islands Water and Power Authority (Electric System): | | | |
| Bond Anticipation of 2017 | 2020 | 10.00 | \$ 14,765 |
| Bond Anticipation of 2016 | 2019 | 5.50 | 33,960 |
| Revenue Bonds of 2015 | 2035 | 1.62 | 12,671 |
| Revenue Bonds of 2012 | 2025 | 4.00 - 6.06 | 53,115 |
| Revenue Bonds of 2010 | 2035 | 4.00 - 6.85 | 50,255 |
| Revenue Bonds of 2007 | 2031 | 4.50 - 5.00 | 57,585 |
| Revenue Bonds of 2003 | 2028 | 4.00 - 5.00 | 42,615 |
| Virgin Islands Water and Power Authority (Water System): | | | |
| Revenue Bonds of 2018 | 2033 | 2.30 - 2.90 | 75,000 |
| Virgin Islands Port Authority: | | | |
| Series A Revenue Bonds of 2014 | 2033 | 4.00 - 5.00 | 23,025 |
| Series B Revenue Bonds of 2014 | 2044 | 3.00 - 5.00 | 12,820 |
| Series C Revenue Bonds of 2014 | 2025 | 2.00 - 5.00 | 3,920 |
| Subtotal | | | 379,731 |
| Plus unamortized premium | | | 4,990 |
| Bonds payable, net | | | 384,721 |
| Less amount due within one year | | | (16,050) |
| Bonds payable, due in more than one year | | | \$ 368,671 |

The changes in bonds payable for discretely presented component units are as follows for the year ended September 30, 2018 (expressed in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due Thereafter |
|---|-------------------|------------------|--------------------|-------------------|---------------------|-------------------|
| Virgin Islands Water and Power Authority: | | | | | | |
| Electric System | \$ 265,165 | \$ 14,765 | \$ (12,491) | \$ 267,439 | \$ 13,485 | \$ 253,954 |
| Water System | 3,665 | 75,000 | (3,665) | 75,000 | - | 75,000 |
| Virgin Islands Port Authority | 45,356 | - | (3,074) | 42,282 | 2,565 | 39,717 |
| Total | \$ 314,186 | \$ 89,765 | \$ (19,230) | \$ 384,721 | \$ 16,050 | \$ 368,671 |

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Notes to Basic Financial Statements

The changes in notes payable, line of credit payable, and other long-term liabilities for discretely presented component units are as follows for the year ended September 30, 2018 (expressed in thousands):

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due Thereafter |
|----------------------------------|----------------------|-----------------|-------------------|-------------------|------------------------|-------------------|
| Notes payable | | | | | | |
| Virgin Islands Housing Authority | \$ 435 | \$ - | \$ (435) | \$ - | \$ - | \$ - |
| Virgin Islands Port Authority | 873 | 4,196 | (4,178) | 891 | 891 | - |
| University of the Virgin Islands | 81,989 | 2,541 | (2,402) | 82,128 | 2,712 | 79,416 |
| Other component units* | 10,667 | - | (108) | 10,559 | 1,306 | 9,253 |
| Total | \$ 93,964 | \$ 6,737 | \$ (7,123) | \$ 93,578 | \$ 4,909 | \$ 88,669 |

| | | | | | | |
|---|------------------|---------------|-------------|------------------|------------------|-------------|
| Line of credit payable | | | | | | |
| Virgin Islands Water and Power Authority: | | | | | | |
| Electric System | \$ 27,128 | \$ 194 | \$ - | \$ 27,322 | \$ 27,322 | \$ - |
| Water System | 2,500 | 22 | - | 2,522 | 2,522 | - |
| Total | \$ 29,628 | \$ 216 | \$ - | \$ 29,844 | \$ 29,844 | \$ - |

*University of the Virgin Islands Research and Technology Park Corporation (unaudited)

| | Restated Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year | Due Thereafter |
|---|----------------------------------|-----------------|--------------------|-------------------|------------------------|-------------------|
| Other long-term liabilities: | | | | | | |
| Virgin Islands Housing Authority | \$ 5,645 | \$ 3,570 | \$ (2,324) | \$ 6,891 | \$ 4,139 | \$ 2,752 |
| Virgin Islands Port Authority | 2,382 | 2,225 | (1,007) | 3,600 | 982 | 2,618 |
| Virgin Islands Water and Power Authority: | | | | | | |
| Electric System | 162,655 | - | (7,832) | 154,823 | 9,137 | 145,686 |
| Water System | - | 1,559 | - | 1,559 | 1,559 | - |
| Hospital and Health Facilities Corporation: | | | | | | |
| Schneider Regional Medical | 3,346 | - | (74) | 3,272 | 3,272 | - |
| Juan F. Luis Hospital | 8,554 | - | - | 8,554 | 8,554 | - |
| University of the Virgin Islands | 5,504 | 239 | (617) | 5,126 | 453 | 4,673 |
| Other component units* | 11,585 | 567 | (498) | 11,654 | 1,104 | 10,550 |
| Total | \$ 199,671 | \$ 8,160 | \$ (12,352) | \$ 195,479 | \$ 29,200 | \$ 166,279 |

*University of the Virgin Islands Research and Technology Park Corporation (unaudited)

(a) Bonds Payable

Virgin Islands Water and Power Authority - Electric System Bond Anticipation of 2017

In August 2017, the Electric System closed on financing for an additional \$14.8 million as part of the authorized \$85.0 million BANs (Series 2017A BAN) to fund startup costs for the acquisition and construction of six high efficiency power generating units with a certain vendor. The funding provides for (1) the design, engineering, procurement, construction, startup and testing of the new power generating units (2) the financing of two centralized control rooms and operational centers on the islands of St. Thomas and St. Croix, (3) financing of capitalized interest, and (4) payment of costs of issuance. The rate on the BANs was 10.0%, maturing July 1, 2020.

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Notes to Basic Financial Statements

Virgin Islands Water and Power Authority - Electric System Bond Anticipation of 2016

In November 2016, the Electric System closed on financing for \$33.9 million to fund the Streetlight conversion project (Series 2016A BAN). The funding provides for (1) acquisition, assembly, and installation of the light-emitting diode (LED) and solar panels, (2) engineering and project management, and (3) integration with the Electric System's Tantalus "smart meter" network or automated metering infrastructure (AMI). The Electric System issued the BANs to fund the project since long term rates have trended higher with the recent rating agency downgrades. The rate on the BANs was 5.5%, maturing November 15, 2018.

Virgin Islands Water and Power Authority - Electric System Rural Utilities Services Series 2015A

In November 2015, the Electric System obtained a term loan with the RUS in the principal amount of \$13.0 million. The proceeds of the loan were used to finance and refinance the acquisition and installation of an automated metering system and other costs related thereto.

Virgin Islands Water and Power Authority - Electric System Revenue Bonds of 2012

In May 2012, the Electric System issued \$69.1 million in bonds made up as, \$17.4 million in 2012A Electric System Revenue Refunding Bonds, \$19.7 million in 2012B Electric System Subordinated Revenue Bonds, and \$32.0 million in 2012C Electric System Subordinated Revenue Bonds. The proceeds of the Series 2012A Bonds were used to (1) refund the Electric System's Electric System Revenue Refunding Bonds, Series 1998 and (2) pay certain costs of issuance of the Series 2012A Bonds. The proceeds of the Series 2012B Bonds were used to (1) refinance a portion of the Electric System's Electric System Term Loan, (2) make a deposit into the Subordinated Debt Service Reserve Fund sufficient to satisfy the Series 2012B Subordinated Debt Service Reserve Fund Requirement, and (3) pay certain costs of issuance of the Series 2012B Bonds. The proceeds of the Series 2012C Bonds were used to (1) refinance all or a portion of the Electric System Working Capital Lines of Credit and Overdraft Credit Facility, (2) make a deposit into the Series 2012C Subordinated Debt Service Reserve Fund sufficient to satisfy the Subordinated Debt Service Reserve Fund Requirement, and (3) pay certain costs of issuance of the Series 2012C Bonds.

Virgin Islands Water and Power Authority - Electric System Revenue Bonds of 2010

In March 2010, the Electric System issued \$85.3 million in bonds made up as, \$39.1 million in 2010A Electric System Revenue Refunding Bonds, \$8.9 million in 2010B Electric System Revenue Bonds, and \$37.3 million in 2010C Electric System Revenue Bonds. The proceeds of the Series 2010A Bonds were used to (1) refund a portion of the Electric System Revenue Refunding Bonds, Series 1998 and (2) pay certain costs of issuance of the Series 2010A Bonds. The proceeds of the Series 2010B Bonds were used to finance certain capital expenditures temporarily funded through draws on a line of credit (\$9.0 million) and to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the Series 2010C Bonds were used to fund a portion of the costs of certain capital improvements to the Electric System and to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Revenue Fund Requirement. The proceeds of the three series were also used to pay certain costs of issuance of the 2010A, 2010B, and 2010C Bonds.

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Virgin Islands Water and Power Authority - Electric System Revenue Bonds of 2007

In June 2007, the Electric System issued \$57.6 million in 2007A Electric System Subordinated Revenue Bonds. The proceeds of the Series 2007A Bonds were used to (1) finance costs of certain capital improvements, (2) refinance certain costs of capital improvements funded through draws on a Line of Credit and reinstatement of \$10.0 million to the line of credit allocable to the Electric System, (3) make certain required deposits to the subordinated Debt Service Reserve Fund, and (4) pay certain costs of issuance of the Series 2007A Bonds.

Virgin Islands Water and Power Authority - Electric System Revenue Bonds of 2003

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

For the year ended June 30, 2018, the Electric System's Debt Service Coverage ratio was (-1.23) for total Debt Coverage. Section 606(2) of the Resolution provided that if the Electric System fails to achieve such 1.00 coverage in a particular year, the Electric System must "take whatever steps it can to produce the amount of net electric revenues required in the following fiscal year ..." Section 701 (3) of the Resolution relates to covenant defaults and makes them an event of default if such covenant default continues for 60 days after notice unless the Electric System is proceeding with diligence to cure such default.

The Electric System has notified the Trustees regarding the non-compliance with the covenants as required under the bond resolutions. The Electric System is taking all necessary actions to comply with its rate covenant under the bond resolutions inclusive of filing a revised base rate to increase the rates combined with the implementation of the Electric System's Transformation Plan to allow the Electric System to collect increased revenues. Since the 2017 hurricanes, the Electric System continues working diligently to cure each instance of default and anticipates that all such defaults will be cured as the Electric System's long-term Transformation Plan is implemented. The Electric System's revised base rate and LEAC petitions were approved on January 9, 2020. However, the Electric System cannot yet determine how long it will take to generate Electric Revenues in amounts necessary to comply with the provisions of the bond resolutions. As of June 30, 2020, the Authority has made all required debt service payments to date, and all required bond reserves are adequately funded.

Virgin Islands Water and Power Authority - Water System Revenue Bonds of 1998

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

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Payment of principal and interest on the 1998 Series Bonds is secured by an irrevocable lien on the Water System's net revenues (exclusive of any funds that may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Water System has conveyed to the bond trustee a subordinate lien and security interest in the Water System's net revenues. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution. The 1998 Series Bonds maturing on or after July 1, 2010, are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time.

The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Water System shall be damaged, destroyed, taken, or condemned or (ii) any for-profit, nongovernmental investor shall acquire an ownership interest in some or all assets of the Water System. The Water System's Bond Resolution requires the Water System under Section 606(1), for as long as the bonds are outstanding, to establish rates "so that in each fiscal year the net water revenues shall at all times be at least 1.25 the aggregate debt service requirement for such fiscal year." For the year ended June 30, 2018, the bonds were fully repaid.

Virgin Islands Water and Power Authority - Water System Revenue Bonds of 2018

In November 2017, in order to fund its working capital needs in the aftermath of the hurricanes, the Water System obtained \$31.0 million under the Community Disaster Loan program administered by FEMA. In March 2018, the Water System entered into another loan for \$44.0 million and refinanced the existing \$31.0 million for a combined loan of \$75.0 million, secured now as a first lien of the Water System's revenues. The proceeds of these loans were used to provide working capital mostly for fuel invoices, payroll, and other critical operating expenses. While the loan is reflected under the Water System, the payment of principal and interest is subject to an intercompany agreement whereby 17% will be allocated to the Water System and 83% to the Electric System. The Water System may request draw-downs periodically. The interest rate varies with each draw-down, ranging from 2.3% to 2.9%. The first interest payment is due July 1, 2019 with subsequent payments due semiannually. The first principal payment is due January 1, 2022 with subsequent payments due semiannually.

Virgin Islands Port Authority - Series A, B, and C Revenue Bonds of 2014

In October 2014, VIPA issued the 2014 Series Revenue Bonds A, B & C amounting to \$48.6 million, with an average interest rate of 4.7%. A portion of the proceeds was used to refund the outstanding bond series 2003 A and C amounting to \$24.5 million, which included accrued interest as of the redemption date for October 27, 2014. The proceeds from the issuance of the 2014 Series used in the refunding were deposited in an escrow account, held by the Trustee on behalf of the holders of the refunded bonds, and applied to such redemption contemporaneously with the issuance of the Series 2014 Bonds.

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As a result, the 2003 A & C Bonds were paid off. The 2003 Series B Marine Revenue Bonds were also paid off. VIPA reduced its total debt service requirement by \$1.7 million, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2.4 million. In addition, VIPA recognized a deferred charge on debt refunding amounting to \$0.4 million. The proceeds of the 2014 Bonds, together with certain other available funds of VIPA, were used for: (i) refunding \$24.5 million in 2003 Series A Marine Revenue bonds and pay off the 2003 Series bonds; (ii) for the financing of various capital projects; (iii) to fund a deposit to the debt service fund; (iv) to fund a deposit to the operation, maintenance, renewal and replacement reserve account; and (v) to pay the cost of issuance of the 2014 Bonds.

The 2014 bonds issued by VIPA contain certain bond indentures. The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance and other costs specified in the corresponding indentures. The bonds' indentures also specify certain debt service coverage requirements determined from Net Available Revenues (as defined) of the Marine Division.

Future debt service requirements for discretely presented component units' bonds payable are as follows (expressed in thousands):

| Maturity Year | Principal | Interest |
|--------------------------|------------|------------|
| 2019 | \$ 16,050 | \$ 12,713 |
| 2020 | 68,127 | 14,299 |
| 2021 | 19,989 | 13,563 |
| 2022 | 20,760 | 12,809 |
| 2023 | 21,441 | 15,075 |
| 2024-2028 | 108,881 | 43,441 |
| 2029-2033 | 97,570 | 15,650 |
| 2034-2038 | 22,913 | 2,592 |
| 2039-2043 | 3,500 | 37 |
| 2044-2048 | 500 | - |
| Total | 379,371 | \$ 130,179 |
| Plus unamortized premium | 4,990 | |
| Bonds payable, net | \$ 384,721 | |

(b) Notes Payable

Virgin Islands Housing Authority

In July 2012, VIHA signed an interest free non-recourse repayment agreement in the amount of \$3.2 million with the PG for the misuse of disaster related expenditures related to Hurricane Marilyn which occurred in 1995. The note was fully repaid during the December 31, 2017 fiscal year.

Virgin Islands Port Authority

In April 2018, VIPA obtained a short-term note for \$3.5 million with interest at a 4.2% annual rate. This note has a 9-month maturity and is due in January 2019. This note was used to finance VIPA's insurance premiums. The outstanding balance of \$0.9 million as of September 30, 2018, was paid off in December 2018.

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In November 2017, VIPA obtained a short-term note for \$0.6 million with interest at a 3.7% annual rate and 9-month maturity. This note was used to finance VIPA's insurance premiums and was paid off in June 2018.

University of the Virgin Islands

During fiscal year 2015, UVI entered into two capital project loan agreements, the Series 2015 3-1 and Series 2015 3-2 Notes, for the construction of a medical school on the island of St. Thomas. UVI received advances amounting to \$2.5 million related to the Series 2015 3-1 Note. UVI also entered into a loan agreement with First Bank of Puerto Rico for the construction of the medical school. A variable rate was assigned to all the loans.

In June 2011, UVI entered into two capital project loan agreements (the Series 2011-2 and Series 2011-3 Notes) in the amounts of \$44.0 million and \$16.0 million, with Rice Capital Access Program, LLC. The purpose of the capital project loans was to: (i) advance refund the University's 1999 Series A Bonds and 2004 Series A Bonds; and (ii) to pay for construction costs of a 100-bed student residence facility and other improvements on the St. Thomas and St. Croix campuses. Interest payments are due February and August. Interest on the Series 2011-2 Note is 3.48% and interest on the Series 2011-3 Note is variable based on the U.S. Treasury Rate plus 22.5 basis points. The Notes have maturity dates through August 1, 2040.

UVI Research and Technology Park Corporation (2017 balances presented)

In February 2013, RTPark obtained a \$3.0 million loan from a member. A portion of the loan proceeds were used to repay a previous loan from UVI to complete construction on 64 West Center. This loan has a 6.75% interest rate and is payable over 15 years. At September 30, 2017, the note payable amount was \$1.9 million. The loan is secured by RTPark's tangible and intangible property.

(c) Line of Credit Payable

The Electric System of WAPA has available bank lines of credit for \$13.0 million for capital projects and \$20.0 million for working capital purposes. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 1%, London Interbank Offered Rate (LIBOR) plus 1.5% or 1.5% above the interest rate on three-year United States Government treasury notes.

The Electric System has the option to select the variable interest rate to utilize for any borrowings on these notes. At June 30, 2018, there was \$27.3 million outstanding under the lines of credit. The due dates of the lines have been extended several times with a current due date of July 30, 2020.

The Water System of WAPA has available bank lines of credit of \$2.5 million for the Water System. Interest on amounts borrowed is payable quarterly at a variable interest rate of prime plus 1.0%, London Inter-Bank Offer Rate (LIBOR) plus 1.75%, or 175 basis points above the interest rate on three-year United States Government treasury notes. The Water System has the option to select the variable interest rate to utilize for any borrowings on these notes. At June 30, 2018, there was \$2.5 million outstanding under the lines of credit for the Water System.

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Notes to Basic Financial Statements

11. General Tax Revenue

For the year ended September 30, 2018, general tax revenue of the PG consisted of the following (expressed in thousands):

| | General | PFA Debt Service | PFA Capital Projects | Other Governmental | Total |
|--|-------------------|-------------------|----------------------|--------------------|-------------------|
| Income taxes | \$ 377,042 | \$ - | \$ - | \$ - | \$ 377,042 |
| Real property taxes | 46,148 | - | - | 5,169 | 51,317 |
| Gross receipts taxes | 22,038 | 162,702 | 754 | 250 | 185,744 |
| Excise taxes | 144,458 | 108,529 | - | 4,745 | 257,732 |
| Other taxes | 57,189 | - | - | 6,407 | 63,596 |
| | <u>\$ 646,875</u> | <u>\$ 271,231</u> | <u>\$ 754</u> | <u>\$ 16,571</u> | <u>935,431</u> |
| Tax revenue not recognized on the full accrual basis | | | | | (854) |
| Total tax revenue - government-wide | | | | | <u>\$ 934,577</u> |

12. Governmental Fund Balances

Following is a detail of the aggregated fund balances presented in the Balance Sheet - Governmental Funds as of September 30, 2018, (expressed in thousands):

| | General | PFA Debt Services | PFA Projects | Federal Funds | Other Governmental | Total |
|----------------------------------|--------------------|-------------------|-------------------|--------------------|--------------------|-------------------|
| Restricted for: | | | | | | |
| Debt service | \$ - | \$ 282,327 | \$ - | \$ - | \$ - | \$ 282,327 |
| Capital projects | - | - | 153,871 | - | - | 153,871 |
| General government | - | - | - | - | 38,564 | 38,564 |
| Total | <u>\$ -</u> | <u>\$ 282,327</u> | <u>\$ 153,871</u> | <u>\$ -</u> | <u>\$ 38,564</u> | <u>\$ 474,762</u> |
| Committed to: | | | | | | |
| General government | \$ 30,669 | \$ - | \$ - | \$ - | \$ 78,809 | \$ 109,478 |
| Public safety | - | - | - | - | 7 | 7 |
| Public housing and welfare | - | - | - | - | 223 | 223 |
| Transportation and communication | - | - | - | - | 12,930 | 12,930 |
| Culture and recreation | - | - | - | - | 327 | 327 |
| Total | <u>\$ 30,669</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 92,296</u> | <u>\$ 122,965</u> |
| Assigned to: | | | | | | |
| General government | \$ 1,001 | \$ - | \$ - | \$ - | \$ 69,157 | \$ 70,158 |
| Public safety | - | - | - | - | 1,531 | 1,531 |
| Health | - | - | - | - | 2,729 | 2,729 |
| Public housing and welfare | - | - | - | - | 1,877 | 1,877 |
| Transportation and communication | - | - | - | - | 6,102 | 6,102 |
| Culture and recreation | - | - | - | - | 1,152 | 1,152 |
| Total | <u>\$ 1,001</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 82,548</u> | <u>\$ 83,549</u> |
| Unassigned | \$ (72,428) | \$ - | \$ - | (88,182) | \$ (66,192) | \$ (226,802) |
| Total Fund Balances | <u>\$ (40,758)</u> | <u>\$ 282,327</u> | <u>\$ 153,871</u> | <u>\$ (88,182)</u> | <u>\$ 147,216</u> | <u>\$ 454,474</u> |

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The committed and assigned fund balances include approximately \$141.8 million in unexpended encumbrances. Encumbrances are utilized to determine commitments related to unperformed (executor) contracts for goods and services and to prevent the over-spending of an appropriation.

13. Commitments and Contingencies

Primary Government

(a) Collective Bargaining Agreements

Currently, the Government has entered into union contracts with thirteen (13) distinct labor organizations representing government employees in various bargaining units. Collectively, these bargaining units have approximately thirty-nine (39) collective bargaining agreements in existence. Nine (9) bargaining units have not negotiated a collective bargaining agreement with the Government.

Employees in the various bargaining units are not under a single pay plan. Consequently, it is common to have employees performing the same classification of work in different departments and agencies. Of the approximately nine thousand (9,000) government workers, approximately seven thousand (7,000) are union members. Virgin Islands statutes governing bargaining with unions requires arbitration in the event an impasse is reached in negotiations. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision.

As of September 30, 2018, the Government has contractual liabilities for retroactive union arbitration salary payments estimated at \$195.3 million accruing from fiscal years 1993 through 2010, as established by the Virgin Islands Retroactive Wage Commission. Under Title 24, Section 374(h) of the V.I. Code, the PG may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature.

(b) Federal Assistance Programs

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Monetary and nonmonetary federal financial assistance to governmental funds amounted to approximately \$1.1 billion and \$88.7 million, respectively, for the year ended September 30, 2018.

Receipt of grants and loss reimbursements is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under U.S. Office of Management and Budget's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Disallowances as a result of these audits may become liabilities of the Government.

As discussed in Note 18, the Government is a recipient of disaster recovery funds due to the September 2017 hurricanes. Audits of disaster recovery funds may continue for decades, and federal reimbursements may be required to be repaid as a result of federal audits.

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

(c) U.S. Department of Education Special Conditions

Since 2006, in accordance with special conditions imposed by the U.S. Department of Education (USED), the Government has contracted with a third-party fiduciary agent to ensure that the Government manages and administers USED grants in accordance with applicable federal and financial management requirements.

The special conditions also require the Government to submit quarterly reports on progress in improving all aspects of the fiscal management of federal education grants. The Virgin Islands has implemented a Self-Contained Model known as the Federal Grants Specialized Processing Unit to address the special conditions and as the approach for reassuming management of the grant funds.

(d) U.S. Department of Labor Designation

On February 3, 2017, the Virgin Islands Department of Labor was placed on high-risk grantee status by the U.S. Department of Labor. High-risk grantee status is an administrative designation used by federal agencies to indicate unsatisfactory performance in the management of federal grants. Management is currently working with the U.S. Department of Labor to implement corrective action.

(e) Legal Proceedings and Litigation Claims

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government that exceeds \$25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to \$250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of \$100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately \$21.0 million for awarded and anticipated unfavorable judgments as of September 30, 2018.

Changes in the reported provision for legal claims during September 30, 2018, resulted from the following activity (expressed in thousands):

| | Beginning Balance at October 1, 2017 | New Claims and Changes in Estimates | Claims Payments | Ending Balance at September 30, 2018 |
|----------------------------|---|---|-----------------|--|
| Provision for legal claims | \$ 16,145 | \$ 5,571 | \$ 500 | \$ 21,216 |

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The breakdown of the provision for legal claims at September 30, 2018, as reflected in governmental activities, is as follows (expressed in thousands):

| | |
|-------------------|-----------|
| Current portion | \$ 299 |
| Long-term portion | 20,917 |
| | \$ 21,216 |

(f) Landfill Closure and Post-Closure Costs

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

Although closure and post-closure costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each statement of net position date. The \$102.1 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2018, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care as of September 30, 2018.

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

| Landfill | Estimated Used capacity | Estimated Closure date |
|-------------|----------------------------|---------------------------|
| Bovoni | 98% | 2022 |
| Anguilla | 97% | 2021 |
| Susannaberg | 100% | Closed |

Government of the United States Virgin Islands

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The actual cost to perform closure and post-closure may be higher due to inflation, changes in technology, or changes in regulations. The Government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The Government began making annual contributions to a trust in fiscal year 2007 to finance closure and post-closure costs. The Government expects that future inflation costs will be paid from interest earnings on these annual contributions and other financing measures.

However, if interest earnings and financing measures should prove to be inadequate, or additional post-closure care requirements are determined due to changes in technology or applicable laws or regulations, these costs may need to be recovered through charges to future landfill users.

(g) Wastewater Treatment Plant Consent Decree

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation required that the new St. Croix wastewater treatment plants be completed by the end of 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. The cost of both facilities was estimated at approximately \$50.0 million. In January 2004, the Government's Legislature authorized the creation of the VIWMA for the purpose of meeting environmental requirements of wastewater treatment in the U.S. Virgin Islands. On December 2004, PFA issued revenue bonds amounting to \$94.0 million for the purpose of constructing and rehabilitating wastewater treatment plants. The treatment facilities were completed in July 2007 and January 2008 at a cost of approximately \$27.0 million and \$29.0 million for the St. Croix and the St. Thomas treatment facilities, respectfully.

The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the stipulation.

(h) Memorandum of Understanding - EPA

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

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Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to \$6.0 million in the aggregate, commencing on October 13, 2003. Subsequently, the Government entered into a three-year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA. At the conclusion of the MOU treatability study period, the PG agreed to reissue the TPDES permit to Cruzan Rum in 2008 with the requirement that the rum distillery design and construct a treatment facility for the rum distillery effluent within three years. PFA issued the Series 2009 Cruzan Bonds to fund the treatment facility which is currently operating under a 2013 TPDES permit.

(i) Workers' Compensation Liability

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

Changes in the worker's compensation liability amount in fiscal year 2018 and 2017, as recorded in the Government Insurance Fund, are as follows (expressed in thousands):

| September 30, | 2018 | 2017 |
|--|-----------|-----------|
| Claims payable, beginning of year | \$ 40,462 | \$ 38,459 |
| Incurred claims and changes in estimates | - | 5,760 |
| Payments for claims and adjustments expenses | (4,468) | (3,757) |
| Claims payable, end of year | \$ 35,994 | \$ 40,462 |

(j) Bond Credit Ratings

In August 2017, Fitch Ratings downgraded the Government's Matching Fund Revenue and Gross Receipts Tax debt to B from BB-. In the same month, the PG stopped providing information to Standard & Poor's necessary to evaluate the PG's liquidity, and that rating agency withdrew its credit ratings for the Virgin Islands in October 2018. In January 2018, Moody's Investors Service downgraded the Government'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.

(k) Operating Agreement - Limetree Bay Terminals, LLC

In January 2012, Hess Oil Virgin Islands Corporation (Hess Oil) announced that it would close its oil refinery on the island of St. Croix and the facility would serve as a storage terminal. The company amended tax returns for the three years before the closing, and a legal dispute arose with the Government over amounts due to, or from, the company in connection with the amended returns and other requirements of Hess Oil's agreement with the Government.

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On December 1, 2015, the Government settled its dispute with Hess Oil. The company agreed to transfer to the Government 330 acres of land near the oil terminal (estimated value \$21.0 million), 130 housing units at the oil terminal (estimated value \$27.0 million), and a vocational school and a community center (both estimated at a value of \$1.0 million) for a payment in lieu of taxes (PILOT) valued at \$50.0 million.

On December 1, 2015, the Government entered into an operating agreement with the new operator of the oil terminal, Limetree Bay Terminals, LLC (Limetree). Limetree agreed to investigate refurbishing and reopening the terminal, with an investment of \$125.0 million. In December 2015, Limetree paid \$220.0 million as a payment in lieu of taxes, \$9.0 million as a reimbursement for contingent claims, and agreed to invest \$6.0 million in the construction of a bitumen tank at the facility. As part of the operating agreement Limetree receives exemption from property taxes, income taxes, and local taxes. Limetree will be subject to a concession payment of 10.0% of terminal revenues.

Should the oil refinery reopen, Limetree will be required to pay concession fees of 17.5% of refinery income to the Government on a quarterly basis. If there is a change in the control of Limetree, the Government is to receive 10.0% of the transaction value of the exchange, not to be less than \$25.5 million.

In December 2018, Limetree obtained \$1.3 billion in financing to reopen the oil refinery operation. Upon closing, the Government received \$40.0 million in short-term financing and \$30.0 million in payment for the 130 housing units, vocational school and community center at the oil refinery.

(l) Professional Services for Recovery Efforts

In November 2017 and on behalf of the Government, PFA entered into a professional services contract to coordinate recovery efforts with FEMA and other federal agencies following the two Category 5 hurricanes in September 2017. The initial contract provided for annual compensation not to exceed \$5.0 million, a term of five years from November 30, 2017, and provisions for the parties to extend the contract in two-year increments by mutual agreement. In February 2018, the contract was amended to revise the scope of work and increase the compensation of the contract to \$10.0 million annually, retroactive to November 2017. In August 2018, a second amendment was added to the contract of HUD riders containing provisions required by federal regulations for Community Development Block Grants - Disaster Relief Program. Also see Note 18.

Also, in November 2017 and on behalf of the Government, PFA entered into a second professional services contract to coordinate recovery efforts. The competitive bid contract was for a term of five (5) years following the effective date of the contract and may be extended in two (2) two-year increments for a maximum term of nine (9) years. Compensation under the agreement was capped at \$15.0 million annually including out-of-pocket expenses. In April 2018, the contract was amended to increase the compensation amount to \$50.0 million annually, retroactive to November 2017. The increase is described in the amendment as due to an increase in the demands of the Government's aggressive campaign to identify, access, secure and manage a larger percentage of the available federal resources and funding from FEMA and other federal agencies. In September 2018, the contract was amended a second time to increase the compensation amount to \$80.0 million annually, retroactive to November 30, 2017. The increase is described in the amendment as due to the exhaustion of the \$50.0 million, and the continuing aggressive campaign to obtain federal funding following the hurricanes. Also see Note 18. For the year ended September 30, 2018, the total amount due to the disaster recovery consultants related to this contract was \$40,784,331.

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On May 4, 2018, PFA entered into Memorandums of Understanding (MOU) WAPA and with the Virgin Islands Housing Finance Authority (VIHFA), autonomous instrumentalities of the Government for disaster recovery consulting. The MOUs terminate at the expiration of the contract between PFA and the disaster recovery consultants. Invoices from the disaster recovery consultants are received by PFA, provided to WAPA and VIHFA for approval, and remitted back to PFA for submittal to federal grantors and payment.

(m) Molasses Subsidy Fund

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 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.

On December 18, 2015, Congress retroactively extended the \$13.25 per proof gallon rum excise tax rate from January 1, 2015 through December 31, 2016 with the Protecting Americans from Tax Hikes ("PATH") Act. The Tax Cuts and Jobs Act passed by Congress in December 2017 retroactively extended the \$13.25 per proof gallon rum excise tax rate from January 1, 2017 to December 31, 2022.

Pension Trust Fund

(a) Pension Reform

In response to a recommendation in a September 27, 2011, audit report from the Office of the Inspector General and U.S. Department of Interior, the PG formed a Pension Reform Joint Task Force (the Task Force) to address the declining fiscal condition of the GERS. The Office of the Inspector General's audit report had concluded that, due to insufficient contribution levels and an unbalanced ratio of active to retired members, the retirement system of the U.S. Virgin Islands may default as soon as the year 2025.

The Task Force has submitted recommendations to the Legislature to: (i) increase government and employee contributions towards pension benefits; (ii) raise contribution rates for senators and judges; (iii) reduce retiree current benefits by 10 percent; (iv) increase the early retirement age from fifty (50) to fifty-five (55) and the regular retirement age from sixty (60) to sixty-five (65); (v) limit the cost of living increase; and (vi) change the formula used to calculate benefits.

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On February 5, 2015, GERS increased employee contribution rates by 1.0% to be implemented over a three-year period and to be effective for three years. At September 30, 2018, the Government's contributions to the system had increased to 20.5%.

In March 2016, the Office of the Virgin Islands Inspector General issued a report on the alternative investment program administered by GERS. The report concluded that the non-traditional investments of the retirement system were subject to higher risks than other GERS assets.

In September 2016, GERS sponsored a public summit to present projections of investment returns and future benefit payments for the system. Actuarial reports indicate that the assets of the system may be fully depleted by the year 2023.

In December 2019, GERS increased employer contributions to the pension plan by 3.0% from 20.5% to 23.5%.

Component Units

(a) Virgin Islands Waste Management Authority

On October 26, 2016, the VIWMA entered into a Memorandum of Understanding ("MOU"), to comply with a September 28, 2016 order by the District Court to establish a Landfill/Solid Waste Remediate Fund (the Fund) to pay for urgent projects at the landfills required under Consent Decrees entered into with the Environmental Protection Agency.

The order by the District Court stipulates that the Fund be managed by the VIWMA through a separately established escrow account in the amount of \$3,103,909, and that all landfill projects be completed on or before September 30, 2018. As of September 30, 2018, the amount remaining in the escrow account was \$1,885,473.

(b) Virgin Islands Water and Power Authority - Electric System

At June 30, 2018, the WAPA Electric System recorded a liability of \$4.1 million for amounts owed to FEMA related to questioned costs from Hurricane Hugo in 1989. Currently FEMA and its subrecipient, the PG, do not have a mechanism for recovering overpayment of disaster-related funds. FEMA has not made a request for repayment of the funds and in WAPA's opinion, the matter will not have a material effect on WAPA's changes in financial position or cash flows.

In October 2008, WAPA Electric facilities were impacted by Hurricane Omar. The majority of the damage was inflicted to the electric distribution system on the island of St. Croix with minimal damage on St. Thomas, St. John, and Water Island. The Electric System expended \$2.7 million for storm cleanup and system restoration as of June 2010. The Territory was declared a federal disaster after the hurricane and was eligible for reimbursement of 75% of what was expended according to the category of the damage. Both at June 30, 2018 and 2017, the Electric System has recorded a grant receivable from FEMA amounting to approximately \$1.0 million.

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In August 2010, WAPA Electric facilities were damaged by Hurricane Earl. The damage was inflicted on the electric distribution system on all the islands. The Electric System has expended over \$2.0 million for storm clean-up and restoration, which was completed the end of October 2010. The Territory was declared a Federal disaster area after the Hurricane and was eligible for reimbursement of 75% - 80% of what was expended according to the category of the damage. Both at June 30, 2018 and 2017, the Electric System has recorded a grant receivable from FEMA amounting to approximately \$1.3 million.

In April 2012, WAPA leased a temporary 22-megawatt mobile power plant for \$14.6 million for eighteen (18) months through October 2013. In November 2013, management and the vendor extended the original lease agreement for an additional twelve months through November 2014 for \$7.8 million. The lease term was extended for an additional twenty-four months through November 2016. The lease has since been reevaluated and extended for 2 to 6-month short term periods through November 1, 2018 and was further extended through December 31, 2020. Total lease payments for 2018 and 2017 were \$10.8 million and \$6.1 million, respectively. During the normal course of business, the Electric System leases additional and various property and equipment to support Electric System operations. The leases are generally short term in nature and lease payments are not significant to the overall operations of the Electric System.

WAPA has signed purchase power agreements with several companies to integrate a combined 18MW of solar electricity into the WAPA's electrical grid system. The agreements expire between 2022 and 2027. WAPA will not own the solar assets but will be able to purchase solar generated electricity at contracted rates.

(c) Virgin Islands Water and Power Authority - Water System

In 2011, the Water System of WAPA entered into two agreements with Seven Seas Corporation to build, operate and maintain two reverse osmosis facilities, one on St. Croix and one on St. Thomas, and sell the water from the facilities to WAPA. The agreements both have twenty (20) year terms expiring through 2032. The amount paid to Seven Seas Corporation by the Water System in fiscal year 2018 (through June 30, 2018) amounted to \$8.8 million.

(d) Virgin Islands Port Authority

The Federal Aviation Administration (FAA) conducted an onsite wildlife evaluation of the landfill, nearby airport, and surrounding area of the Anguilla Landfill of St. Croix. Flocks of birds nesting at the landfill had created environmental and navigational concerns at the Henry E. Rohlsen airport. FAA threatened to force VIPA to repay federal grants amounting to \$9.3 million if remediation steps were not taken. The landfill is under the jurisdiction of the Virgin Islands Waste Management Authority (VIWMA). VIPA and VIWMA proposed a compliance and mitigation plan in 2013 which was accepted by FAA and VIPA is eligible for FAA grants.

(e) Governor Juan F. Luis Hospital & Medical Center

The Governor Juan F. Luis Hospital and Medical Center previously held an equity ownership with a radiology practice within the hospital. The radiology practice paid rent to the hospital and the hospital paid for service to hospital patients. As of September 30, 2018, the hospital owed the radiology practice \$8.6 million in unpaid invoices for hospital patients.

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(f) Other

Various discretely presented component units are presently defendants or codefendants in various lawsuits. The financial managers of the component units have advised the PG that any adverse outcome involving a material claim is expected to be substantially covered by insurance. Government property is exempt from lien, levy, or sale due to court judgments under the V.I. Code.

During the year ended September 30, 2018, the Schneider Regional Medical Center recognized \$1.7 million as an expense in connection with a legal dispute with the general contractor of the Charlotte Kimelman Cancer Institute. The hospital was required to pay the amount in connection with an arbitration settlement subsequent to year-end.

14. Retirement Systems

Primary Government

Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources. As required, the Government follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*, as amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68* and GASB Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*.

(a) Plan Description and Benefits

Full time employees of the Government are members of Government Employees' Retirement System of the U.S. Virgin Islands (GERS), a cost sharing, multiple-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the V.I. Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members. The plan covers all employees of the Government except employees compensated on a contract fee basis, casual, per diem or provisional and part time employees who work less than twenty (20) hours per week. Persons over the age of fifty-five (55) may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after ten (10) years of service. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the plan:

Tier 1: Employees hired prior to September 30, 2005

Tier 2: Employees hired on or after October 1, 2005

Regular Tier I employees who have completed thirty (30) years of credited service or have attained age sixty (60) with at least ten (10) years of credited service are eligible for a full-service retirement annuity. Regular Tier II employees who have attained age sixty-five (65) with at least ten (10) years of service are eligible for a full-service retirement annuity. Members who are considered "safety employees" as defined in the Code are eligible for full-service retirement benefits under Tier I when they have earned at least twenty (20) years of government service or have reached the age of fifty-five (55) with at least ten (10) years of credited service.

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Under Tier II, safety employees are eligible for full retirement when they have earned at least twenty-five (25) years of government service and have reached age fifty-eight (58) or have reached age (60) with at least ten (10) years of service.

Members of the Legislature and Judges may receive a retirement annuity when they have attained age fifty (50) and upon completion of six (6) years of credited service as a member of the legislature or at any age with at least twenty (20) years of service. Judges are eligible for full retirement benefits when they have attained age fifty (50) and have completed six (6) years of service.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for regular and safety Tier I members is determined by averaging the five highest years of credited service within the last ten years of service, subject to the maximum salary limitations in effect during such service. Average compensation for regular and safety Tier II members is based on career average salary, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation for regular and safety employees is \$65,000. For members of the legislature and judges, the average compensation varies based on the year of service.

In 1995, the Early Retirement Incentive Training and Promotion Act was amended by the Legislature to allow a member with a combined aggregate number of years of service and age of at least seventy-five (75) years to retire without a reduction in their annuity. Early retirement benefits provided under the Act vary depending upon age of retirement, type of employment, and credited years of service.

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

(b) Funding and Contribution Policy

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required contribution for Tier 1 and Tier 2 members was 20.5% of the member's annual salary during the fiscal year ended September 30, 2018. Effective January 1, 2020, the Government's required contribution will increase to 23.5% of the Tier 1 and Tier 2 member's annual salary.

Employee contribution rates (as a percentage of payroll) were as follows during fiscal year 2018:

| | <u>Tier 1</u> | <u>Tier 2</u> |
|----------------------------|---------------|---------------|
| Regular Employees | 11.0% | 11.5% |
| Public Safety Employees | 13.0% | 13.625% |
| Members of the Legislature | 12.0% | 14.0% |
| Judges | 14.0% | 15.0% |

Government of the United States Virgin Islands

Notes to Basic Financial Statements

The defined benefit pension plan administered by GERS, and the PG have a fiscal year that ends on September 30th. The following time frames are used to measure and report the PG's pension liability:

| | |
|---------------------|--------------------------------------|
| Valuation Date: | October 1, 2017 |
| Measurement Date: | September 30, 2017 |
| Measurement Period: | October 1, 2016 - September 30, 2017 |

The PG is considered an employer of the plan with a proportionate share of 76.5852% as of September 30, 2017, which was an increase of 0.1681% from its proportionate share measured as of September 30, 2016. The PG's percentage was estimated by management based on the average of each employer's contributions during the period October 1, 2013 through September 30, 2017. The PG's proportionate share of employer contributions recognized by GERS was \$77.8 million for the plan's fiscal year ended September 30, 2017.

(c) Pension Liabilities, Expense, and Deferred Outflows/Inflows of Resources

As of September 30, 2018, the actuarially calculated net pension liability of the PG was \$3.4 billion. The net pension liability is measured as of September 30, 2017, and the total pension liability is actuarially computed as of October 1, 2017.

For the year ended September 30, 2018, the Government recognized \$245.3 million of pension expense, inclusive of amortization of deferred outflows of pension related items.

Following is a schedule of deferred outflows and deferred inflows allocated to the Government in the computation of the net pension liability for the year ended September 30, 2018, (expressed in thousands):

| Governmental Activities | Deferred Outflows | Deferred Inflows |
|---|--------------------------|-------------------------|
| Difference between expected and actual experience | \$ 101,498 | \$ - |
| Net difference between projected and actual investment earnings on pension plan investments | 19,033 | - |
| Changes in assumptions | 553,305 | 237,410 |
| Changes in proportion and differences between contributions and proportional share of contributions | 33,876 | 1,872 |
| Contributions made subsequent to measurement date | 77,839 | - |
| Total | \$ 785,551 | \$ 239,282 |

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Notes to Basic Financial Statements

Amounts reported as deferred outflows and inflows, exclusive of contributions made after the measurement date, will be recognized in pension expense as follows (expressed in thousands):

Year Ending September 30,

| | |
|------------|------------|
| 2019 | \$ 148,153 |
| 2020 | 167,649 |
| 2021 | 153,295 |
| 2022 | 21,941 |
| 2023 | 23,488 |
| Thereafter | (46,096) |
| Total | \$ 468,430 |

(d) Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of the measurement date at September 30, 2017, is provided below. Refer to the October 1, 2017, actuarial valuation report for a complete description of all other assumptions, which can be found on GERS' website at <http://www.usvigiers.com/Benefits/ActuarialReports.aspx>.

| September 30, | 2017 |
|-------------------------|---------------------------|
| Inflation Rate | 2.50% |
| Salary Increases | 3.25% including inflation |
| Actuarial Cost Method | Entry age normal |
| Expected Rate of Return | 7.00% |
| Municipal Bond Yield | 3.64% |
| Discount Rate | 3.74% |
| Mortality Table | RP-2014 Blue Collar |

The demographic assumptions for the 2017 actuarial valuation are based on the results of an actuarial experience study for the period October 1, 2011 through September 30, 2015.

(e) Investment Rate of Return

The long-term expected rate of return of 7.00% on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date of September 30, 2017, are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|-------------------|--|
| Domestic equity | 29% | 6.21% |
| International equity | 12% | 7.21% |
| Fixed income | 27% | 1.56% |
| Cash | 2% | 0.91% |
| Alternatives | 30% | 5.50% |
| Total | 100% | |

(f) Discount Rate

The discount rate used to measure total pension liability was 3.74% as of September 30, 2017, which was an increase of 0.54% from the discount rate as of September 30, 2016. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the future increases in the employee contribution rates legislated. Using the above assumptions, GERS fiduciary net position is not projected to be available to make all projected future benefit payments to current plan members.

The plan's long-term expected rate of return on pension plan investments of 7.0% was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a twenty (20) year AA Municipal Bond Index was applied. As of September 30, 2017, that rate was 3.64%.

(g) Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

Following is a schedule of net pension liability for the Government calculated using the discount rate of 3.74%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate for the year ended September 30, 2018, (expressed in thousands):

| | 1% Decrease (2.74%) | Current Discount (3.74%) | 1% Increase (4.74%) |
|-----------------------|------------------------|--------------------------------|------------------------|
| Net pension liability | \$ 3,891,932 | \$ 3,354,768 | \$ 2,911,508 |

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Notes to Basic Financial Statements

(h) Early Retirement Incentive Program

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

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

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4.0% higher during the three years used to compute the employee's average compensation figure, plus a sum of \$5,000.

Based on this calculation, the amount due to GERS was \$26.9 million and has been remitted to GERS. The actuaries of GERS have determined that the specific funding provided under the Act is inadequate to cover the costs of the program. GERS is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law, which provides that the Government will compensate GERS for the costs of any special early retirement program.

(i) Additional Information Regarding the Pension Plan

To obtain additional information regarding the pension plan, requests for information may be submitted to GERS at www.usvigiers.com. Actuarial reports of GERS are available at <http://www.usvigiers.com/Benefits/ActuarialReport.aspx>. Detailed information about the pension plan's fiduciary net position is available in the separately issued GERS audited financial statements available at www.usvigiers.com/Reports/AuditedFinancialReports.aspx.

WICO Employee Retirement Plan

WICO sponsors a defined contribution retirement and savings plan (the "Plan") for its employees. Under the provisions of the Plan, employees must contribute at least 3.0% of their gross compensation but may also contribute up to 7.0%. WICO matches 3.0% of the employees' contribution plus a non-elective distribution at the discretion of WICO, which is divided among eligible employees, proportionate to compensation. Required contributions to the pension and savings plan made and charged to operations were approximately \$117,000 for the year ended September 30, 2018. WICO does not offer other post-retirement benefits to its employees.

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viNGN Employee Retirement Plan

viNGN sponsors a defined contribution retirement plan for its employees. Employees who receive a salary of at least \$5,000 are eligible to participate in the plan. viNGN matches the employee's contribution up to a maximum of 2% of the eligible employee's compensation. viNGN contributed \$18,368 in matching employer contributions for the year ended September 30, 2018. viNGN does not offer other post-retirement benefits to its employees.

University TIAA-CREF Defined-Contribution Plan

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. Total contributions made by the University and plan members to TIAA-CREF for the fiscal year ended September 30, 2018 amounted to \$2.5 million. Contributions to GERS by the University amounted to \$1.5 million for the fiscal year ended September 30, 2018.

15. Other Postemployment Benefits

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

During the year ended September 30, 2018, the PG has implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This standard requires the reporting and disclosure of costs and liabilities associated with postemployment benefits provided to retirees of the Government, its component units and certain eligible nonpublic corporations, other than pensions.

Plan Description and Benefits

The Health Insurance Board of Trustees of the PG (the Board) administers the defined benefit health and life insurance plan for eligible active and retired employees of the PG, the component units of the Government, and certain nonpublic corporations that receive allotments from the PG. The Board determines the eligibility criteria of the plan and recommends insurance contracts to the Legislature. The Group Health Insurance Office of the Department of Personnel maintains the accounting and personnel records for the health and life insurance plan. Eligible retired employees visit the Group Health Insurance Office within 30 days following retirement and complete a new insurance enrollment form. An eligible retiree is one that retires through the Government Employees Retirement System (GERS) or who is placed on disability and is eligible for retirement benefits.

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The Government's OPEB plan is a multiple employer defined benefit plan created in accordance with Title 3, Ch. 25, Subchapter VIII of the Virgin Islands Code. The plan is a pay as-you-go, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No.75, and expenses are paid as they come due. There are five participating employers in the plan: the primary Government, University of the Virgin Islands, Virgin Islands Port Authority, East End Medical Center and Frederiksted Health Care, Inc.

The primary Government has a special funding arrangement with the following component units: VI Lottery, Magens Bay Authority, VI Economic Development Authority, VI Waste Management Authority, VI Housing Finance Authority, Juan Luis Hospital and Medical Center, Roy L. Schneider Medical Center, VI Public Finance Authority and the VI Public Broadcasting System. Under the special funding arrangement, the primary Government pays 100% of the employer costs.

Retirees participate in the same health benefit programs as active employees until reaching Medicare eligibility. After attaining Medicare eligibility, retirees participate in a Medicare Advantage prescription drug plan and an AARP Supplemental Plan. Four types of health plans were offered to eligible participants during the fiscal year:

- Group health and life insurance coverage through the Cigna Health and Life Insurance Company
- Group life and accidental death and dismemberment through ALIC Life Insurance Company
- Medicare Advantage and AARP Medicare Supplement through United Healthcare Insurance
- Vision care through Standard Insurance Company

Contributions

Contribution percentages are enacted by the Legislature of the Virgin Islands based on recommendations of the Board. Changes in percentages are implemented by the Department of Personnel. Active and retired employees are responsible for 35% of the cost of group insurance costs. The employee share is withheld from salaries or pension benefits. Retirees receive a noncontributory life insurance benefit of \$5,000 and may elect to increase this coverage to \$75,000 at their own expense.

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Notes to Basic Financial Statements

Employees Covered by the Plan

As of the valuation date of October 1, 2017, the following employees were covered by the Government's postemployment benefits plan:

| Valuation Date of October 1, 2017 | Primary Government | Component Units | Total |
|---|-----------------------|--------------------|---------------|
| Active employees | 8,451 | 786 | 9,237 |
| Retired employees | 7,890 | 119 | 8,009 |
| Deferred vested retirees | 210 | - | 210 |
| Disability retirees | 226 | 3 | 229 |
| Total | 16,777 | 908 | 17,685 |
| Primary Government | 15,304 | | |
| Component units included in primary Government's OPEB expense under special funding arrangement | 1,473 | | |
| Total | 16,777 | | |

OPEB Liability

The PG's proportionate share of the total liability was 95.6078% as of October 1, 2017, which was a decrease of 0.1193% from its proportionate share measured as of October 1, 2016. The PG's percentage was determined based on its respective census information provided to the actuary. The PG's total OPEB liability amounted to \$783.4 million which includes the PG's share of the component unit liabilities under the special funding arrangement of \$52.1 million.

Following is the total OPEB liability at September 30, 2018 (expressed in thousands):

| | September 30, 2018 |
|-----------------------------|-----------------------|
| Primary Government | \$ 783,373 |
| Component units | 33,717 |
| Total OPEB Liability | \$ 817,090 |

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Notes to Basic Financial Statements

Actuarial Assumptions

The postemployment benefit plan is an unfunded plan. An actuarial valuation was conducted of the amount required to fund the plan, involving assumptions about the probability of the occurrence of events in the future. Actuarial assumptions used in the computation of the total OPEB liability are as follows:

| | |
|------------------------------|---|
| Valuation date: | October 1, 2017 |
| Measurement date: | October 1, 2017 |
| Report date: | September 30, 2018 |
| Actuarial cost method: | Entry Age Normal Cost Method |
| Amortization method: | Recognition Period of 6 Years |
| Salary increases: | Payroll Growth of 3.25% per year |
| Discount rate: | Beginning of Year Rate of 2.89% End of Year Rate of 3.35% S&P Municipal Bond 20-Year High Grade Rate Index as of September 30, 2017 |
| Healthcare cost trend rates: | Pre-Medicare Increases of 7.00% in 2018 to 4.50% in 2023 Medicare Increases of 5.50% in 2018 to 4.50% in 2023 Dental Increases of 5.50% in 2018 to 4.50% in 2023 |
| Inflation: | 2.25% Implicit Rate in Healthcare Trend Analysis |
| Retirees share of costs: | 35% of Medical and Dental Premiums and Noncontributory Life Insurance Coverage. Retirees of UVI 403(b) plan pay 100% of coverage. |
| Mortality: | RP-2014 Blue Collar Mortality Generational Table Adjusted 110% with Scale MP-2015 for Healthy Lives. For Disability Retirees, RP-2014 Disabled Mortality Generational Table Adjusted 125% with Scale MP-2015 |
| Marital status: | Assumed 50% of Future Male Retirees and 25% of Future Female Retirees Cover Spouses in Retirement Husbands Assumed to be 3 Years Older Than Spouse Subsidized Coverage of Spouses and Dependents Ceases Upon Death. |
| Actuarial Experience Study | The actuarial assumptions used in the October 1, 2017, valuation were based on the results of an actuarial experience study for the period October 1, 2014 - September 30, 2015. |

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Changes in Assumptions

- The discount rate changed from 2.50% in the prior valuation to 2.89% and 3.35% as of September 30, 2016 and 2017, respectively.
- The base mortality tables and mortality improvement sales were update to RP-2014 Blue Collar Mortality table (110% adjustment) projected forward using the M-2015 scale.
- Future participation in the retiree health plan decreased from 100% to 85%.

Changes in Total OPEB Liability

Following are the components of change in the proportionate OPEB liability for the year ended September 30, 2018 (expressed in thousands):

| | Primary Government | Component Units | Total |
|---|-----------------------|--------------------|-------------------|
| Beginning balances | \$ 812,955 | \$ 33,985 | \$ 846,940 |
| Changes for the year: | | | |
| Service cost | 28,216 | 1,861 | 30,077 |
| Interest | 23,904 | 1,028 | 24,932 |
| Changes in assumptions or other input | (53,422) | (2,576) | (55,998) |
| Expected benefit payments | (28,280) | (581) | (28,861) |
| Net changes | (29,582) | (268) | (29,850) |
| Ending balances | \$ 783,373 | \$ 33,717 | \$ 817,090 |
| Primary Government | \$ 731,251 | | |
| Component Units Included in Primary Government's OPEB liability under special funding arrangement | 52,122 | | |
| Total OPEB Liability at September 30, 2018 | \$ 783,373 | | |

OPEB Expense and Deferred Inflows of Resources Related to OPEB

For the fiscal year ended September 30, 2018, the OPEB expense of the PG amounted to \$43.8 million as follows (expressed in thousands):

| | Primary Government | Component Units | Total |
|---|-----------------------|--------------------|------------------|
| Service cost | \$ 28,215 | \$ 1,861 | \$ 30,076 |
| Interest on the total OPEB liability and net cash flow | 23,904 | 1,028 | 24,932 |
| Current period effect in change in assumptions | (8,334) | (402) | (8,736) |
| Total OPEB Expense | \$ 43,785 | \$ 2,487 | \$ 46,272 |
| Primary Government | \$ 38,821 | | |
| Component Units Included in Primary Government's OPEB expense under special funding arrangement | 4,964 | | |
| Total OPEB Expense | \$ 43,785 | | |

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Notes to Basic Financial Statements

At September 30, 2018, the PG reported deferred inflows of resources related to OPEB (expressed in thousands) as follows:

| | Primary Government | Component Units | Total |
|--|--------------------|-----------------|-----------|
| Changes in assumptions or other inputs | \$ 45,088 | \$ 2,174 | \$ 47,262 |
| Primary Government | \$ 41,165 | | |
| Component Units Included in Primary Government's deferred inflows of resources under special funding arrangement | 3,923 | | |
| Total OPEB Expense | \$ 45,088 | | |

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (expressed in thousands):

| Fiscal Year Ended September 30 | Primary Government | Component Units | Total |
|------------------------------------|--------------------|-----------------|------------------|
| 2019 | \$ 8,334 | \$ 402 | \$ 8,736 |
| 2020 | 8,334 | 402 | 8,736 |
| 2021 | 8,334 | 402 | 8,736 |
| 2022 | 8,334 | 402 | 8,736 |
| 2023 | 8,334 | 402 | 8,736 |
| 2024 and after | 3,418 | 164 | 3,582 |
| Total OPEB Deferred Inflows | \$ 45,088 | \$ 2,174 | \$ 47,262 |

Sensitivity of OPEB Liability to Changes in the Discount Rate

The following sensitivity analysis shows the impact to the total OPEB liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate (expressed in thousands):

| | 1% Decrease 2.35% | Current Discount 3.35% | 1% Increase 4.35% |
|-----------------------------|----------------------|---------------------------|----------------------|
| Primary Government | \$ 907,033 | \$ 783,373 | \$ 684,134 |
| Component Units | 39,683 | 33,717 | 28,944 |
| Total OPEB Liability | \$ 946,716 | \$ 817,090 | \$ 713,078 |

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Sensitivity of OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following sensitivity analysis shows the impact of the total OPEB liability if the healthcare cost trend rates were 1.00% higher or 1.00% lower than the current healthcare cost trend rate.

| | 1% Decrease - Health Cost Trend Rate 6.00% | Current Health Cost Trend Rate 7.00% | 1% Increase - Health Cost Trend rate 8.00% |
|---------------------------------------|---|--|---|
| Primary Government Component Units | \$ 677,795 28,263 | \$ 783,373 33,717 | \$ 918,135 40,795 |
| Total OPEB Liability | \$ 706,058 | \$ 817,090 | \$ 958,930 |

Component Units

Other OPEB Plans

WAPA offers a medical, dental, and vision benefit plan, and reported a net OPEB liability of \$55.8 million, deferred outflows of resources of \$0.5 million and deferred inflows of resources of \$8.7 million as of June 30, 2018.

VIHFA offers certain health care benefits including healthcare and prescription drug, dental, vision and life insurance to qualified retired employees and their dependents. VIHFA reported a net OPEB obligation of \$11.6 million as of December 31, 2017.

16. Liquidity

Primary Government

At September 30, 2018, the Government reported a total net deficit in governmental activities amounting to \$4.8 billion. The net deficit is mainly due to the adoption of accounting standards that required the reporting of pension and other post-employment liabilities and related expenses based on actuarial computations.

Following is a summary of the Government's unrestricted net deficit for governmental activities for fiscal years 2016 through 2018:

| Fiscal Year | Governmental Unrestricted Net Deficit | (Increase)/ Decrease |
|-------------|---|-------------------------|
| 2016 | \$ (4,247,570) | \$ (\$95,234) |
| 2017 | (4,797,101) | (549,531) |
| 2018 | (5,352,571) | (555,470) |

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Following is a summary of the general fund deficit. At September 30, 2018, the Government reported a fund deficit in the general fund of \$40.8 million. This fund deficit balance represents a decrease in the deficit by \$167.1 million from the preceding fiscal year. This increase was due mainly to the reduction in spending, an increase in tax revenues, and receipt of the bonds issued.

| Fiscal Year | Committed | Assigned | Unassigned | Total |
|-------------|-----------|----------|-------------|-------------|
| 2016 | \$ 16,513 | \$ - | \$ (89,599) | \$ (73,086) |
| 2017 | 16,667 | 552 | (225,060) | (207,841) |
| 2018 | 30,669 | 1,001 | (72,248) | (40,758) |

Non-major Funds Deficit

Primary Government

The following non-major funds have a net fund deficit as of September 30, 2018, (expressed in thousands):

Governmental Funds

| | | | |
|---|--------|---|------------|
| Rural Library Extension | \$ 572 | Water & Electric System Projects | \$ 1,698 |
| Employment Security Administration | 2,152 | Sewer System Fund | 175 |
| Federally Aided Education Program | 9,599 | District Potable Water Fund | 4,962 |
| Air & Water Pollution Control | 7,104 | Paternity And Child Support | 11,572 |
| Virgin Islands Planning Board Projects | 3,000 | District Street Light Fund | 27,075 |
| Highway Safety | 4,600 | Virgin Islands Law Enforcement | 4,094 |
| Virgin Islands Energy Office | 3,655 | Forensic Science | 74 |
| Virgin Islands National Guard Federal and State Agreement | 2,760 | Vocational Rehabilitation | 1,848 |
| Food Stamp Welfare | 2,434 | Hurricane Hugo Insurance Claims | 3,908 |
| Federal Programs/Department Conservation | 3,974 | Virgin Islands Army National Guard | 2,266 |
| Federal Aided Community Action Agency | 187 | Emergency Drought Relief | 153 |
| Commission on Aging | 50 | Outdoor Recreation Program | 32 |
| Elementary/Secondary Education | 19 | Narcotics Strike Force Forfeiture | 1 |
| Job Training Partnership Act Of 1983-1984 | 8,614 | Small Business Development Administration Managerial And Technical Assistance | 8 |
| Civil Defense Protection | 849 | Juvenile Detention Center Fund Non-Lapsing | 14 |
| Health Information Council Assistance | 18 | Natural Resource Reclamation | 2,205 |
| Drug Education Training Program | 123 | Section 12 Bond Proceeds | 24,547 |
| Federal Health Program Not on Federal Letter of Credit System | 489 | Road Fund | 6,330 |
| Boating Safety Program | 584 | Major Repair And Improvement | 58 |
| Fish and Game | 285 | Fishery and Wildlife Projects | 27 |
| The Motorcycle Safety Ed. Prog. | 9 | Disaster Relief Fund-Hugo | 14,444 |
| | | WAPA Generating & Infrastructure | 3 |
| | | Net fund deficit | \$ 156,571 |

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Proprietary Funds

| | |
|--|-----------|
| Frederiksted Small Business Fund | \$ 164 |
| Altona Community Development Fund | 3 |
| Housing Construction Revolving | 7,653 |
| Emergency Housing Fund | 82 |
| Virgin Islands ID Registration Fund | 20 |
| Virgin Islands Elections Fund | 195 |
| Consumer Protection Fund | 200 |
| Government Insurance Fund | 35,324 |
| Virgin Islands Housing Finance Authority | 2,898 |
| Homestead and Home Revolving Fund | 344 |
| <hr/> | |
| Net fund deficit | \$ 46,883 |

The Government expects structural deficits following the 2017 hurricanes to be offset by the economic activity related to construction and federal recovery assistance. The post-hurricane construction economy is strong as residents replace damaged property along with the influx of federal workers and construction firms. Airbnb properties have increased to replace hotel rooms damaged by the storms. The Government has successfully negotiated the direct withholding of hotel tax by Airbnb.

In fiscal year 2019, cruise ship calls returned to near normal levels. The Government has experienced an increase in tax collections reported by the Virgin Islands Bureau of Internal Revenue. The Government has also continued to receive its annual matching fund rum excise tax advance from the U.S. Department of Interior.

New sources of revenue streams expected in fiscal years 2019 and 2020 include the settlement with the Secretary of the Treasury on amounts related to the *Disaster Tax Relief and Airport and Airway Extension Act of 2017* and increasing revenues from the Limetree Bay Terminal concessioner. Additionally, immediately following the hurricanes of 2017, the federal government acted to provide relief to the U.S. Virgin Islands through legislation and supplemental appropriations for disaster recovery assistance. The Government expects to receive approximately \$8.0 billion in federal assistance through fiscal year 2025. The Government has also participated in the Federal Emergency Management Agency's (FEMA) Community Disaster Loan (CDL) program.

The CDL program provides operational funding for local governments to continue to operate after a substantial revenue loss (greater than 5.0%) caused by a disaster. The term of the CDL loans is five (5) years and can be extended to ten (10) years. The Government's ability to access the CDL facility allowed it to remain current in its obligations. The Government has pledged gross receipts taxes for the timely payment of the CDLs and entered into a bond agreement with FEMA in July 2018. The Government has also been the recipient of insurance recoveries and private donations.

While the Government has certain revenues pledged for debt service on various bonds and notes, to date, revenues pledged for debt service have not been significantly impacted by the hurricanes. The Government does not anticipate the issuance of additional bonds in the immediate future.

All payments on bonds and notes obligations have been remitted as required. Other significant liabilities of the Government, mainly consisting of benefits due to the Government's workforce and landfill closure costs, represent obligations of the Government that do not require the use of current resources.

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WICO

WICO is a component unit of PFA. WICO is in a negative working capital position as of September 30, 2018 due to legislation requiring WICO to remit \$700 thousand annually to the primary Government as a payment in lieu of taxes (PILOT). As of September 30, 2018, WICO owes the primary Government \$7.4 million in PILOT payments.

viNGN

viNGN is also a component unit of PFA. The start-up of viNGN was funded by a loan advance from PFA amounting to \$36.8 million as of September 30, 2018. As of September 30, 2018, no repayments of the loan advance have been made by viNGN.

Component Units

(a) Virgin Islands Water and Power Authority - Electric System

Management of the Electric System (the System) has been attempting to stabilize and solidify its financial condition. The System has successfully petitioned the Virgin Islands Legislature to increase its debt ceiling limit and is working with an external financial team to restructure debt and gain access to additional financing to sustain operations and fund capital projects.

Management of the System is also preparing a comprehensive base rate petition and semi-annual LEAC filings for submission to the Public Service Commission prior to the end of calendar year 2019, which will produce additional liquidity and allow the System to build working capital reserves. The plan also includes a strategy to right-size and streamline the System's processes. The System continues to aggressively pursue federal funding for the acquisition of new high efficiency generation and renewables which will improve reliability, resiliency, and efficiency and reduce operating costs.

(b) Virgin Islands Government Hospital and Health Facilities Corporation

The Schneider Regional Medical Center on St. Thomas and the Juan F. Luis Hospital and Medical Center incurred significant structural damages related to the September 2017 hurricanes. The full impact of the hurricanes continues to be evaluated as the hospitals seek grants and federal assistance to continue operations.

At September 30, 2018, the Schneider Regional Medical Center's current liabilities exceeded current assets by \$19.8 million including \$4.2 million owed to the PG, payments owed to the PG of \$10.7 million, payments due to GERS of \$9.0 million, and payments due to WAPA of \$10.2 million. The hospital is economically dependent on the continued financial support of the PG. In fiscal year 2018, the allotment from the PG for salaries and benefits amounted to \$21.9 million.

At September 30, 2018, the Juan F. Luis Hospital and Medical Center's current liabilities exceeded current assets by \$39.3 million including \$2.8 million due from the PG. The hospital is economically dependent on the continued financial support of the PG. In fiscal year 2018, the allotment from the PG for salaries and benefits amounted to \$20.4 million.

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The PG has assumed responsibility for the repayment of the two hospital's Community Disaster Loans (CDLs). At September 30, 2018, the Schneider Regional Medical Center CDLs amounted to \$15.9 million and the Juan F. Luis Hospital and Medical Center's CDLs amounted to \$27.6 million. Interest payments on both loans have been deferred by FEMA through October 1, 2022, when the first principal payment is due. The loans mature October 1, 2037 with interest rates ranging from 2.5% to 3.1%.

17. Restatements to Beginning Net Position/Deficit

Governmental Activities - Statement of Net Position

Beginning net deficit of governmental activities in the government-wide financial statements was restated as follows due to the implementation of GASB Statement No. 75 (expressed in thousands):

| Governmental Activities | Net Position | | |
|--------------------------|------------------------|--------------|----------------|
| | As Previously Reported | Adjustments | As Restated |
| Unrestricted net deficit | \$ (4,443,600) | \$ (335,512) | \$ (4,779,112) |

Business-type Activities and Proprietary Funds - Statement of Net Position

Beginning net position (deficit) in the business-type activities and WICO proprietary fund was restated as follows to reflect an adjustment for compensated absences payable not previously recorded in the financial statements (expressed in thousands):

| | Net Position | | |
|--------------------------|------------------------|-------------|-------------|
| | As Previously Reported | Adjustments | As Restated |
| Business-type activities | \$ (40,015) | \$ (1,817) | \$ (41,832) |
| Proprietary fund - WICO | \$ 5,493 | \$ (1,817) | \$ 3,676 |

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Component Units

Beginning net position of certain discretely presented component units was restated due to the implementation of GASB Statement No. 75 and the implementation of new reporting standards for other postemployment benefits (expressed in thousands):

| Component Units | Net Position | | |
|---|---------------------------------------|--------------------|------------------------|
| | As Previously Reported | Adjustments | As Restated |
| Virgin Islands Port Authority | \$ 102,948 | \$ (23,362) | \$ 79,586 |
| Virgin Islands Water and Power Authority: | | | |
| Electric System | (208,739) | (1,835) | (210,574) |
| Water System | 16,757 | (466) | 16,291 |
| University of the Virgin Islands | (10,611) | (10,622) | (21,233) |
| Net deficit | \$ (99,645) | \$ (36,285) | \$ (135,930) |

In addition, the beginning net position of the other component units' was reduced by \$18.8 million as a result of the adjustments related to unaudited amounts reported in the prior year.

18. Subsequent Events

Primary Government

(a) Hurricane Recovery

The Government is making significant progress towards restoring its facilities which were damaged by Hurricanes Irma and Maria in September 2017. The Government continues the process of tabulating the associated costs and expenses with respect to remediation, clean-up, mitigation, and the restoration of services.

To close potential shortfalls and to serve returning citizens, the Government continues to work closely with federal agencies, such as FEMA, HUD, SBA, etc. to maximize its recovery from all available sources, subject to any sub-limits and retentions.

Through May 2020, federal assistance awarded to the Territory included \$87.2 million in FEMA Individual Assistance grants, \$2.2 billion in FEMA Public Assistance grants, \$38.4 million in Federal Highway grants, \$65.7 million in FEMA Hazard Mitigation grants, and \$1.0 billion in Community Development Block Grants for a total of \$3.4 billion dollars. Other federal grants awarded by various federal agencies amounted to \$111.3 million, for a total of approximately \$3.5 billion.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

(b) *Global Pandemic and Economic Relief Legislation*

In March 2020, the Governor of the U.S. Virgin Islands declared a state of emergency due to the coronavirus pandemic known as COVID-19. The Governor of the PG issued an executive order to close nonessential businesses, certain government offices and schools to reduce the transmission of the disease. The Secretary of the Treasury authorized the Internal Revenue Service to delay income tax payments and tax filings to July 15, 2020. The state of emergency was approved by the President of the United States under the provisions of the Stafford Act and the National Emergencies Act. A federally approved state of emergency activates federal assistance to states in the form of financial, logistical, and technical assistance.

Also, in March 2020, the President of the United States signed into law the “Coronavirus Aid, Relief, and Economic Security (CARES) Act.” The CARES Act, among other things, appropriated funds for the Coronavirus Relief Fund to be used to make payments for specified uses to state, territorial, local, and tribal governments. The Government’s allocation of the Coronavirus Relief Fund is \$74.8 million.

In April 2020, the Virgin Islands was declared a major disaster area by the President of the United States. The Presidential declaration enables the Territory to receive Federal funding for emergency protective measures, including direct Federal assistance. Through May 2020, the PG and its blended and discretely presented component units have been awarded \$168.4 million in federal pandemic recovery assistance including the Coronavirus Relief Fund.

The extent of the impact of COVID-19 on the operational and financial performance of the Government will depend on certain developments, including the duration and spread of the outbreak. Prolonged travel and social gathering restrictions could negatively impact the fiscal outlook for the Government. Management is actively monitoring the impact of COVID-19 on its financial condition, liquidity, operations and industry. However as of the report date, it is unknown what effect, if any, the COVID-19 pandemic will have on the Government and its component units.

(c) *Court Orders Payment to GERS*

In April 2020, the District Court of the Virgin Islands ordered the PG to pay \$63.0 million to GERS related to a dispute over unpaid funds owed to the retirement system from 1991-2009. The PG has appealed this decision with the federal appellate court.

(d) *Other Financing and Payments*

In November 2018, Limetree Bay Ventures obtained \$1.3 billion in financing to reopen the former HOVENSA oil refinery operation on the island of St. Croix. As part of the financing agreement, the Government received \$40.0 million in short-term financing and a \$30.0 million payment for 130 housing units, a vocational school, and community center located at the facility.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Component Units

(a) Virgin Island Public Finance Authority

In December 2018, the first professional services contract was amended to retroactively increase the annual compensation to \$16.0 million through November 30, 2018. The temporary increase of \$6.0 million was due to the Government's aggressive campaign to identify, assess, secure, and manage a larger percentage of the available resources and funding from FEMA and other federal agencies through November 30, 2018. Effective December 1, 2018, the contract amount was returned to \$10.0 million.

Also in December 2018, the second professional services contract was amended a third time to increase the contract amount temporarily to \$85.0 million through November 30, 2018. Effective December 1, 2018, the contract amount returned to the \$80.0 million as specified in the second amendment.

Subsequent to September 30, 2018 and through June 30, 2020, PFA reported outstanding invoices from the two professional consulting services firms amounting to \$12,021,266 and \$63,987,729, respectively. Invoices submitted by the consultants are reviewed by PFA and submitted to the Government, Office of Disaster Recovery, the Virgin Islands Housing Finance Authority, or WAPA for approval. Upon completion of the review and approval process, invoices are then submitted for reimbursement to the appropriate federal grantor.

In February 2019, the Virgin Islands Office of Disaster Recovery (ODR) was established as a business unit of PFA, through a \$3.0 million grant from the Office of Insular Affairs of the Department of Interior. ODR is tasked with managing an anticipated \$8.0 billion of federal disaster recovery grants, while providing coordination and training across all departments and agencies of the Government.

In November 2019, PFA entered into the Series 2019 A Virgin Islands Tax Increment Revenue Loan Note-Island Crossings Shopping Center loan with a local bank in the amount of \$12.0 million and the TIF Project Developer Loan Note payable to CDP, LLC in the amount of \$1.6 million. The proceeds of the loans were used to: 1) defease the Series 2012A TIF Notes with outstanding principal of approximately \$11.0 million and accrued interest of \$104,000, 2) make a settlement payment to the developer of the Island Crossings Shopping Center in the amount of \$2.1 million, 3) fund certain debt service reserves, and 4) pay the costs of the issuance.

In December 2019, Standard & Poor's Global Ratings revised its outlook from negative to stable and affirmed its A rating on the outstanding grant anticipation revenue bonds (GARVEE Series 2015A bonds) of PFA.

In January 2020, Moody's Investors Service confirmed as "stable" the Caa3 rating of PFA's bonds.

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Notes to Basic Financial Statements

(b) Virgin Islands Water and Power Authority

In August 2018, WAPA closed on an additional allocation of the Community Disaster Loan program of up to \$16.0 million. This loan is structured as a Senior Electric System Bond Anticipation Note (BAN) which will convert to Senior Electric System Bonds upon the delivery of a consulting engineer's report. However, on November 14, 2018, WAPA adopted the Ninth Supplementary Bond Resolution, which authorized the issuance of its Electric System Revenue BAN, Series 2018C in a principal amount to include, among other things, a Community Disaster Loan allocation of \$19.5 million approved by FEMA, which amount includes \$16.0 million to refund the Series 2018A Notes and \$3.5 million of additional Community Disaster Loan allocation to be subsequently drawn upon by WAPA (the Series 2018C Senior Notes). The Series 2018A Senior Notes are expected to be exchanged by FEMA for the Series 2018C Senior Notes, which will mature on July 1, 2021.

FEMA's Public Assistance Grant Program (PA) provides federal support to include assistance for debris removal, life-saving emergency protective measures, and the repair, replacement, or restoration of disaster-damaged facilities. As of June 2020, WAPA has been approved for approximately \$529.5 million in grant funding for emergency restoration work.

Additionally, as of June 2020, FEMA has approved approximately \$500.9 million in grant funding for permanent and hazard mitigation projects. WAPA intends to seek funding for the local match from the U.S. Department of Housing and Urban Development's Community Development Block Grants (CDBG-DR).

The Department of Housing and Urban Development (HUD) has also obligated funding towards WAPA's recovery efforts through its CDBG-DR program. In Tranche 1 and Tranche 2 of the Territory's Disaster Recovery Action Plan (Action Plan), there is a combined \$90.0 million allocated to the Electrical Power Systems Enhancement and Improvement. WAPA has received the approval to proceed with the Territory's first CDBG-DR project which will add approximately 40MW of new generation to the Randolph Harley Power Plant on St. Thomas. The Action Plan contains a combined \$168.8 million in Tranche 1 and Tranche 2 for local cost match.

In addition to incurring significant storm related expenses, recurring operating revenues of the WAPA have been reduced. In the interim, WAPA has revised its fiscal years 2019 and 2020 budgets. In a further effort to close potential shortfalls and to serve returning citizens, WAPA continues to work closely with Federal agencies, to maximize its recovery from all available sources. While inflows of Federal and private funds continue to bolster the reconstruction activity, the eventual amount and timing for receipt of such funds cannot be predicted at this time.

As the maturity date of the Series 2016A Subordinated BANs approached in the aftermath of Hurricanes Irma and Maria, WAPA decided to reissue another short-term note to keep rates low until a long-term financing option became available. Accordingly, on November 14, 2018, WAPA and the beneficial owners of the Series 2016A Subordinated BANs entered into an agreement to extend the original maturity date of the Series to no later than December 7, 2018.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

Further, on November 14, 2018, WAPA's Board authorized the issuance of the 2018B Senior BANs. WAPA anticipates refinancing the Series 2016A Subordinated BANs with its Series 2018B Senior BANs, in the principal amount of \$33.9 million. The Series 2018B BANs will mature on July 1, 2020. WAPA currently has two notes (2017A and 2018B) coming due July 1, 2020. The 2017A BANs with an outstanding par value of \$14.8 million will be retired on or before maturity. Fuel taxes and debt service funds already on deposit with the Trustee are available to fully retire these notes. WAPA intends to refinance the 2018B BANs with an outstanding par of \$33.9 million before maturity and WAPA is in negotiations with investors/lenders.

(c) Virgin Islands Port Authority

VIPA is restoring its facilities, which were damaged by Hurricanes Irma and Maria in September 2017. Rebuilding the air and seaports has taken precedence over other activities, and VIPA continues to tabulate the associated costs and expenses with respect to remediation, clean-up, mitigation, and the restoration of services. VIPA engaged a construction management and design-build firm to provide engineering and construction services and has received approximately \$20.0 million in insurance recoveries related to the hurricanes.

In January 2019, new fees pursuant to the airline use and lease agreement were instituted and VIPA and its airline partners are working towards the full execution of the agreement.

In April 2019, in a case filed against the United States CBP for the recovery of wharfage and tonnage, a summary judgement was issued in favor of the United States CBP. As such, no revenue is expected to be recovered.

In March 2020, VIPA signed a settlement agreement with FAA and agreed to remit payment of a \$1.5 million civil penalty in four installments. The first installment of \$0.4 million was paid in March 2020. However, due to the COVID-19 pandemic, the other installment payments have been deferred.

In April 2020, VIPA executed a CARES Act grant with the FAA for a total of \$38.9 million.

(d) Virgin Islands Government Hospital and Health Facilities Corporation

In May 2019, the Governor Juan F. Luis Hospital & Medical Center was approved for funding of \$8.0 million by FEMA to cover the cost of replacing the Hospital. The Hospital will utilize modular units installed following the 2017 hurricanes while the new building is constructed.

In June 2019, the Schneider Regional Medical Center received retroactive Medicaid payments for fiscal years 2011 to 2013 in the amount of \$11.9 million. Of this amount, \$10.5 million was paid to WAPA for outstanding invoices of the hospital. In July 2019, the PG paid approximately \$11.7 million in outstanding invoices owed to WAPA by the Governor Juan F. Luis Hospital & Medical Center.

In April 2020, the Schneider Regional Medical Center received a federal grant in the amount of \$5.5 million in connection with the CARES Act. The funds support the detection of COVID-19 and/or prevention, diagnosis, and treatment of COVID-19, including maintaining or increasing hospital capacity and staffing levels during the COVID-19 public health emergency as outlined in the CARES Act.

Government of the United States Virgin Islands

Notes to Basic Financial Statements

(e) University of the Virgin Islands

In January 2018, the University commenced repairs related to the 2017 hurricanes. Through June 2019, the University had spent \$5.1 million on campus restoration. The University's insurance provider advanced \$5.0 million related to an ongoing claim related to the hurricanes.

(f) The West Indian Company Limited

Subsequent to year end, WICO received a reimbursement of \$547,941 as part of the Territory's FEMA disaster recovery grant. Additionally, WICO has received a total of approximately \$4.0 million in connection with its insurance claims related to the damages incurred; this amount is inclusive of \$3.5 million for business income losses.

In May 2020, WICO was notified by Banco Popular de Puerto Rico that monthly payments on the outstanding loan payable would be deferred for 90 days as a result of the COVID-19 pandemic.

In March 2020, WICO's management agreement with GERS was terminated. As a result of the termination of the agreement, WICO reduced its workforce by thirty-eight (38) employees, resulting in a one-time separation charge of approximately \$1.2 million.

(g) viNGN, INC. d/b/a Virgin Islands Next Generation Network

Subsequent to year end, viNGN received a reimbursement of \$526,589 as part of the Territory's FEMA disaster recovery grant. Additionally, viNGN has received approximately \$3.3 million in connection with its insurance claims related to the damages incurred.

In April 2019, viNGN entered into mediation with one of its customers to resolve a contractual dispute regarding wholesale rates for broadband bandwidth. This dispute was settled on January 24, 2020, and as part of the settlement agreement, viNGN issued an account credit to the customer in the amount of \$531,516.

In April 2020, viNGN amended its MOA with WAPA. As part of the original agreement, viNGN has an exclusive use of certain underground fiber and infrastructure owned by WAPA. Following Hurricanes Irma and Maria in 2017, as WAPA has obtained certain federal funding for the hardening of its infrastructure, the MOA was amended to provide viNGN a continued and exclusive right to use all future telecommunications fiber and spare underground or subsea conduit owned by WAPA.

(h) Other Component Units

Various components units insure all of their properties and were able to secure advance funding for some of the needed repairs of the damages caused by Hurricanes Irma and Maria.

Management's Evaluation

Management has evaluated events and transactions occurring after September 30, 2018, the statement of net position date, and through June 30, 2020, the date the financial statements were available to be issued and noted that there have been no additional events or transactions which would require adjustments to or disclosure in the Government's financial statements for the year ended September 30, 2018.

Required Supplementary Information

Government of the United States Virgin Islands
Schedule of Changes in Total OPEB Liability and Related Ratios

Postemployment Benefits Other Than Pensions

| <i>Measurement year ending September 30,</i> | 2018 |
|--|-----------------------|
| | Primary Government |
| Total OPEB Liability: | |
| Service cost | \$ 28,216 |
| Interest | 23,904 |
| Changes in assumptions or other inputs | (53,422) |
| Expected benefit payments | (28,280) |
| <hr/> | |
| Net Change in Total OPEB Liability | \$ (29,582) |
| Total OPEB Liability - September 30, 2017 | 812,955 |
| <hr/> | |
| Total OPEB Liability - September 30, 2018 | \$ 783,373 |
| <hr/> | |
| Covered-Employee Payroll | \$ 323,158 |
| <hr/> | |
| Total OPEB Liability as a Percentage of Covered-Employee Payroll | 242.41% |

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available.

Notes to Required Supplementary Information - OPEB

The Government does not have assets accumulated in a trust that meets the criteria of Paragraph 4 of GASB Statement No. 75 to pay related benefits.

The Primary Government, by statute, pays 100% of the employer cost-share of the postemployment health, dental, and life insurance of the retirees of the following semi-autonomous agencies: 1) Employee's Retirement System of the Government of the Virgin Islands, 2) Virgin Islands Economic Development Authority, 3) Virgin Islands Housing Finance Authority, 4) Juan F. Luis Hospital & Medical Center, 5) Magens Bay Authority, 6) Virgin Islands Public Broadcasting System, 7) Roy L. Schneider Hospital, and 8) Virgin Islands Waste Management Authority. The Primary Government also reports the OPEB liabilities associated with these benefits.

The discount rate changed from 2.89% for the opening balance as of September 30, 2017, to the discount rate of 3.35% as of September 30, 2018. This change resulted in a decrease in total OPEB liability.

The base mortality tables and mortality improvement sales were update to RP-2014 Blue Collar Mortality table (110% adjustment) projected forward using the M-2015 scale.

Future participation in the retiree health plan decreased from 100% to 85%.

Government of the United States Virgin Islands

Schedule of Net Pension Liability

| September 30, (in thousands) | 2018 | 2017 | 2016 | 2015 |
|--|------------|--------------|--------------|--------------|
| Primary Government's proportion of the NPL | 76.5852% | 76.4171% | 75.2916% | 75.2803% |
| Primary Government's proportionate share of the NPL | 3,354,768 | \$ 3,535,517 | \$ 3,065,617 | \$ 2,323,163 |
| Primary Government's covered-employee payroll | \$ 307,132 | \$ 300,909 | \$ 277,091 | \$ 267,698 |
| Primary Government's proportionate share of the NPL as a percentage of its covered payroll | 1,092% | 1,175% | 1,106% | 868% |
| Plan fiduciary net position as a percentage of the total pension liability | 16.18% | 16.54% | 19.58% | 27.26% |

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the measurement date (September 30 of the previous year).

Government of the United States Virgin Islands

Schedule of Pension Contributions

| September 30, (in thousands) | 2018 | 2017 | 2016 | 2015 |
|---|------------|------------|------------|------------|
| Actuarially required contributions of the Primary Government | \$ 205,052 | \$ 191,481 | \$ 186,089 | \$ 150,628 |
| Contributions in relation to the statutorily required contributions | \$ 77,840 | \$ 61,759 | \$ 68,291 | \$ 64,357 |
| Contribution deficiency | \$ 127,212 | \$ 129,722 | \$ 117,798 | \$ 86,271 |
| Primary Government covered payroll | \$ 309,998 | \$ 307,132 | \$ 300,909 | \$ 277,091 |
| Contributions as a percentage of covered payroll | 25.11% | 20.11% | 22.69% | 23.23% |

This schedule is intended to show a 10-year trend. Additional years will be reported as they become available. The amounts presented for each fiscal year are as of the latest fiscal year.

Government of the United States Virgin Islands
Schedule of Revenues and Expenditures - Budget and Actual
Budgetary Basis – General Fund
(in thousands)

| <i>Year Ended September 30, 2018</i> | Original Budget | Revised Budget | Actual | Variance |
|--|----------------------------|---------------------------|-------------------|-------------------|
| Revenues | | | | |
| Taxes | \$ 741,557 | \$ 741,557 | \$ 665,664 | \$ (75,893) |
| Payment in lieu of taxes | - | - | 11,141 | 11,141 |
| Federal grants and contributions | - | - | 9,940 | 9,940 |
| Charges for services | 73,349 | 73,349 | 7,396 | (65,953) |
| Interest and other | 121,415 | 121,415 | 21,036 | (100,379) |
| Total revenues | 936,321 | 936,321 | 715,177 | (221,144) |
| Expenditures | | | | |
| Current: | | | | |
| General government | 484,341 | 401,760 | 445,813 | (44,053) |
| Public safety | 133,434 | 130,689 | 73,632 | 57,057 |
| Health | 48,348 | 37,221 | 24,229 | 12,992 |
| Public housing and welfare | 69,554 | 69,552 | 56,590 | 12,962 |
| Education | 174,563 | 172,379 | 159,457 | 12,922 |
| Transportation and communication | 28,409 | 27,639 | 17,573 | 10,066 |
| Culture and recreation | 18,798 | 18,397 | 5,246 | 13,151 |
| Debt service: | | | | |
| Principal | - | - | 17,492 | (17,492) |
| Interest | - | - | 1,563 | (1,563) |
| Loan issuance costs | - | - | 1,733 | (1,733) |
| Total expenditures | 957,447 | 857,637 | 803,328 | 54,309 |
| Excess (deficiency) of revenues over expenditures | (21,126) | 78,684 | (88,151) | (166,835) |
| Other financing sources (uses) | | | | |
| Bonds issued | - | - | 188,522 | 188,522 |
| Debt service | (155,010) | - | - | - |
| New resource initiative | - | - | - | - |
| Transfers from other funds | 67,400 | 67,400 | 85,212 | 17,812 |
| Transfer to other funds | (63,785) | (1,469) | (4,872) | (3,403) |
| Transfers to component units | (31,847) | (108,354) | - | 108,354 |
| Total other financing sources, net | (183,242) | (42,423) | 268,862 | 311,285 |
| Excess (deficiency) of revenues and net other financing sources over expenditures | \$ (204,368) | \$ 36,261 | \$ 180,711 | \$ 144,450 |

See accompanying notes to the Schedule.

Government of the United States Virgin Islands

Notes to Schedule of Revenues and Expenditures - Budget and Actual Budgetary Basis - General Fund

1. Budgetary Process and Control

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

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

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

Government of the United States Virgin Islands

Notes to Schedule of Revenues and Expenditures - Budget and Actual Budgetary Basis - General Fund

2. Budget/GAAP Reconciliation

The following schedule presents a comparison of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference of the excess (deficiency) of revenue and net other financing sources over expenditures for the year ended September 30, 2018, is presented below (expressed in thousands):

| | |
|--|------------|
| Excess of revenues and net other financing sources over expenditures | \$ 180,711 |
| Entity difference - deficiency of revenues and net other financing sources over expenditures - activities with budgets not legally adopted | (13,628) |
| <hr/> | |
| Excess of revenues and net other financing sources over expenditures - GAAP basis (net change in fund balance) | \$ 167,083 |

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