

**VIRGIN ISLANDS
PUBLIC FINANCE AUTHORITY**
(a blended component of the Government
of the Virgin Islands)
**Report, Financial Statements and
Supplementary Information
September 30, 1999 and 1998**

Report of Independent Accountants

The Board of Directors of the
Virgin Islands Public Finance Authority

In our opinion, the accompanying balance sheet as of September 30, 1999 and 1998 and the related statements of revenues, expenses and retained earnings, and of cash flows present fairly, in all material respects, the financial position of the Virgin Islands Public Finance Authority (the Authority) (a blended component of the Government of the Virgin Islands) at September 30, 1999 and 1998 and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States. These financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in Exhibit I is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

February 29, 2000

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
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VIRGIN ISLAND PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the Virgin Islands)
Balance Sheet
Years ended September 30, 1999 and 1998

	1999	1998
Assets		
Cash and cash equivalents	\$ 3,485,824	\$ 12,324,898
Short term investments	5,000,000	-
Loans receivable	536,075,000	533,055,000
Loan receivable from Government Development Bank	124,270	180,000
Bonds discount	<u>6,426,437</u>	<u>6,895,386</u>
	<u>551,111,531</u>	<u>552,455,284</u>
Restricted assets:		
Cash	18,273,068	1,552,182
Investments	62,287,406	85,274,334
Pooled investments	<u>106,408,434</u>	<u>116,349,261</u>
	<u>186,968,908</u>	<u>203,175,777</u>
Assets held in trust -		
Pooled investments	<u>13,112,757</u>	<u>14,383,033</u>
Property and equipment	22,749,319	21,918,201
Other assets	<u>3,811,371</u>	<u>5,071,083</u>
Total assets	<u>\$777,753,886</u>	<u>\$797,003,378</u>
Liabilities and Equity		
Liabilities:		
Accrued expenses and other liabilities	\$ 1,971,337	\$ 1,351,342
Bonds payable:		
Bonds payable	536,075,000	533,055,000
Deferred amount on defeased bonds	<u>(5,544,229)</u>	<u>(6,160,249)</u>
	<u>530,530,771</u>	<u>526,894,751</u>
Long-term debt	14,850,290	15,504,943
Due to VI Government	32,200,913	47,477,818
Payable from assets held in trust	3,022,320	5,409,820
Payable from restricted assets	<u>140,598,938</u>	<u>153,237,988</u>
Total liabilities	<u>723,174,569</u>	<u>749,876,862</u>
Equity:		
Contributed capital	6,000,000	6,000,000
Retained earnings:		
Restricted	46,005,548	40,680,651
Unrestricted	<u>2,573,769</u>	<u>446,065</u>
Total equity	<u>54,579,317</u>	<u>47,126,716</u>
Total liabilities and equity	<u>\$777,753,886</u>	<u>\$797,003,378</u>

The accompanying notes are an integral part of these financial statements.

VIRGIN ISLAND PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the Virgin Islands)
Statement of Revenues, Expenses and Retained Earnings
Years ended September 30, 1999 and 1998

	1999	1998
Revenues:		
Taxes, fees and fines	\$ -	\$ 8,135,550
Interest income:		
Loans receivable	30,119,399	20,076,786
Investments	8,615,608	9,424,274
Other income	<u>10,369,275</u>	<u>9,395,853</u>
	<u>49,104,282</u>	<u>47,032,463</u>
Expenses:		
Interest	31,757,520	22,879,756
General and administrative	7,531,207	7,343,132
Amortization of bond issuance and loan origination costs	439,015	1,248,032
Capital expenditure grants	<u>1,294,717</u>	<u>938,908</u>
	<u>41,022,459</u>	<u>32,409,828</u>
Income before transfers to WAPA and VI Government	8,081,823	14,622,635
Transfers to WAPA	-	1,799,860
Transfers to VI Government	(400,000)	(36,788)
In lieu of taxes	<u>(229,222)</u>	<u>(319,076)</u>
Net income	7,452,601	16,066,631
Dividend paid to VI Government	-	(500,000)
Retained earnings at beginning of year	<u>41,126,716</u>	<u>25,560,085</u>
Retained earnings at end of year	<u>\$ 48,579,317</u>	<u>\$ 41,126,716</u>

The accompanying notes are an integral part of these financial statements.

VIRGIN ISLAND PUBLIC FINANCE AUTHORITY
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Statement of Cash Flow
Years ended September 30, 1999 and 1998

	1999	1998
Cash flows from operating activities:		
Net income	\$ 7,452,601	\$ 16,066,631
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of bond issuance	468,949	1,248,032
Amortization of deferred amount	616,020	-
Depreciation	841,097	763,898
Gain on sale of property and equipment	(3,234)	(15,986)
Changes in operating assets and liabilities:		
Decrease (increase) in accounts and interest receivable and other assets	40,818	(15,693)
Decrease in cash and other assets held in trust	2,135,709	26,179,407
Decrease in due to PFA operating	-	(134,024)
Increase (decrease) in accrued expenses and other liabilities	619,996	(86,105)
(Decrease) increase due to VI Government	(15,276,905)	7,417,416
(Decrease) increase in payable from assets held in trust	(2,387,500)	-
(Decrease) increase in payable from restricted assets	(12,639,050)	129,805,570
Total adjustments	(25,584,100)	165,162,515
Net cash (used in) provided by operating activities	(18,131,499)	181,229,146
Cash flows from investing activities:		
Acquisition of property and equipment	(1,680,826)	(2,041,382)
Purchases of investments	(180,453,253)	(419,537,811)
Purchase of short-term investments	(5,000,000)	-
Investment maturities and sales	213,734,469	273,437,896
Proceeds from sale of property and equipment	11,845	24,840
Net cash provided by (used in) investing activities	26,612,235	(148,116,457)
Cash flows from capital and related financing activities:		
Payment of bond issuance costs	-	(6,585,216)
Proceeds from sale of bonds	-	535,659,751
Issuance of loans receivable	(13,550,000)	-
Issuance of long-term debt	13,550,000	-
Principal payments on bonds and loans payable	(11,184,654)	(259,558,158)
Decrease (increase) in loans receivable	10,585,730	(300,425,000)
Payment of dividend	-	(500,000)
Net cash used in capital and related financing activities	(598,924)	(31,408,623)
Net increase (decrease) in cash	7,881,812	1,704,066
Cash and restricted cash at beginning of year	13,877,080	12,173,014
Cash and restricted cash at end of year	\$ 21,758,892	\$ 13,877,080

The accompanying notes are an integral part of these financial statements.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Notes to Financial Statements
September 30, 1999 and 1998

1. Reporting Entity and Significant Accounting Policies

Reporting Entity

The Virgin Islands Public Finance Authority (the "Authority") was created by the Virgin Islands Act No. 5365, "The Government Capital Improvement Act of 1988", for the purposes of aiding the Government of the Virgin Islands (the "Government") in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, the Authority is vested with, but not limited to, the following powers: (i) to have perpetual existence as a corporation, (ii) to borrow money and issue bonds, (iii) to lend the proceeds of its bonds or other money to the Government or any agency, authority or instrumentality thereof, (iv) to establish one or more revolving loan funds with the proceeds of bonds issued by the Authority or issued by the Government or any agency, authority or instrumentality thereof and, (v) to invest its funds and to arrange for the investment of the funds of the Government or any agency, authority or instrumentality thereof.

For financial reporting purposes the Authority is a blended component of the Government of the Virgin Islands.

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

Use of Estimates

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

Basis of Presentation and Accounting

The accompanying financial statements have been prepared on the enterprise fund concept. Accordingly, the financial statements have been prepared using the accrual method of accounting.

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

The Authority accounts for refundings of debt under the provisions of GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt by Proprietary Activities*. This Statement establishes standards of accounting and financial reporting for current and advance refundings resulting in defeasance of debt reported by proprietary activities. Refundings involve the issuance of new debt whose proceeds are used to repay immediately (current refunding) or at a future time (advance refunding) previously issued debt. This Statement requires for both

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current and advance refundings, that the difference between the reacquisition price and the net carrying amount of the old debt be deferred and amortized as a component of interest expense over the remaining life of the old debt or the life of the new debt, whichever is shorter. The deferred amount should be reported on the statement of condition as an addition to or deduction from the new debt.

Description of Accounts

The activities of the Authority are segregated into the following accounts:

Operating Account: The Operating Account was established for purposes of depositing funds available to the Authority for payment of administrative expenses, other operating expenses, and expenses not associated with specific bond accounts or trustee activities.

1998 Series Revenue & Refunding Bonds: Proceeds of the 1998 Bonds were used to (i) advance refund the outstanding prior debt of the Authority, (ii) repay the Revenue Anticipation Note, (iii) finance the payment of various capital projects, (iv) fund the Series Debt Service Reserve Accounts, and (v) pay certain costs of issuance of the 1998 Bonds.

Revenue Bonds Series 1992 A and 1992 B Account: Activities related to the Revenue Bond Series 1992 A and Series 1992 B are recorded in this Account. The Series 1992 A and Series 1992 B bonds were issued to advance refund the previously outstanding Revenue Bonds Series 1989 A and Series 1989 B. These bonds were defeased May 1, 1998 with the proceeds of the issuance of the 1998 Series Revenue & Refunding Bonds ("1998 Series Bonds").

Government Development Revenue Bonds Series 1994 A, 1994 B and 1994 C Account: Activities related to the Revenue Bond Series 1994 A, B and C are recorded in this account. These bonds were issued to fund various capital improvements and economic development projects on the island of St. Croix. These bonds were defeased May 1, 1998 with the proceeds of the 1998 Series Bonds.

Government Construction and Revolving Loan Account: Proceeds of the Series 1989 B bonds were deposited with the Authority to make distributions to the Government and loans to agencies, instrumentalities, commissions, authorities and political subdivisions of the Government for the purpose of financing capital projects approved by the Legislature or otherwise authorized by law.

Transportation Trust Fund Account: Activities related to the Highway Revenue Bonds (Transportation Trust Fund) Series 1989 are recorded in this Account. These bonds were issued to provide funding for the maintenance, improvement, repair and construction of the road and highway system in the Virgin Islands. These bonds were defeased May 1, 1998 with the proceeds of the 1998 Series Bonds.

The West Indian Company Account: Activities related to the operations of the West Indian company ("WICO") purchased by the Government of the Virgin Islands in fiscal year 1993 and subsequently assigned to the Authority, are recorded in this account.

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Depository Trust Account: Funds deposited with the Authority for investment purposes by the Government or any agency, authority or instrumentality thereof are recorded in the Depository Trust Account.

Y2K Account Activities related to fund the various upgrades, acquisitions, and improvements to the computer information systems owned by the Government of The Virgin Islands as a result of shortcomings in many electronic data processing systems and other electronic equipment for identifying and/or processing transactions with the year 2000.

Investments

In March 1997, the GASB issued Statement 31, "Accounting and Financial Reporting for Certain Investments and for Most External Investments Pools (GASB 31), which establishes accounting and financial reporting standards for most investments. GASB 31 requires governmental entities such as the Authority to report investments at fair value in the balance sheet and report changes in the fair value in the statement of income. The provisions of GASB 31 became effective for fiscal periods beginning after June 15, 1997. Retroactive application is required. The Authority adopted GASB 31 in fiscal year 1998. Such adoption as well as changes in fair value during the year was immaterial to the Authority's financial position and result of operations for both 1998 and 1997.

Investments are restricted by various bond resolutions of the Authority and the Act, generally, to direct obligations of the U.S. Government, the Virgin Islands, or any state, territory, possession or Commonwealth of the United States, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing.

Operating Transfers

Operating transfers include distributions to the Government of the Virgin Islands from excess revenues of the Transportation Trust Fund and interest earned on other funds.

Capital Expenditure Grants

During the 1999 fiscal year, approximately \$ 1,295,000 (1998 - \$ 939,000) was disbursed from the Transportation Trust Fund to the Government of the Virgin Islands, and various vendors for road and/or highway projects authorized by the Legislature of the U.S. Virgin Islands pursuant to Act No. 5672. These disbursements are recorded as capital expenditure grants in the accompanying Statement of Revenues and Expenses. In addition, approximately \$11.3 million (1998 - \$10.4 million) of capital expenditures were disbursed from the 1992 Revenue and 1994 Revenue Funds.

Property and Equipment

Property and equipment is recorded at cost and depreciated using the straight-line method over the estimated useful life of the asset. Expenditures for maintenance, repairs and renewals are charged to expense as incurred, whereas major improvements are capitalized as additions to property and equipment.

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Taxes

In May 1998, the Legislature of Virgin Islands of the United States approved a bill (No. 22-0216) that requires WICO to contribute ten percent of net revenues to the General Fund Treasury of the Virgin Islands. This payment shall be made annually in lieu of taxes.

Fair Values of Financial Instruments

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

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

Cash and cash equivalents, and due to/from Government of V.I.: the carrying amounts reported in the balance sheet for these instruments approximate their fair values.

Bonds payable: those bonds were issued in May 1998. The carrying amount of these bonds approximates its fair value based due to recent issuance date.

Long-term debt: given current market conditions and the interest rate scenario, the fair value of the long-term debt approximates its carrying amount.

Statement of Cash Flows

The accompanying statement of cash flows is presented in accordance with the provisions of Governmental Accounting Standards Board Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting*. For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and items in process of collection.

Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (FASB Statement No. 125)

This statement provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. This statement requires that liabilities and derivatives incurred or obtained by transferors as part of a transfer of financial assets be initially measured at fair value, if practicable. It also requires that servicing assets and other retained interests in the transferred assets be measured by allocating the previous carrying amount between the assets sold, if any, and retained interests, if any, based on their relative fair values at the date of the transfer. Portions of this statement pertaining to reverse repurchase agreements, securities lending transactions, and extinguishments of debt were not applied by the Authority due to existing GASB guidance. The Authority implemented this statement commencing with transactions taking place after December 31, 1997, and its implementation did not have a significant effect on the Authority's financial position or results of operations.

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Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments (GASB Statement No. 34)

This Statement establishes new financial reporting requirements for state and local governments throughout the United States. When implemented, it will create new information and will restructure much of the information that governments have presented in the past. The adoption of this statement, effective in three phases starting with period beginning after June 15, 2000, will not have a material effect in the Authority's financial statements.

Accounting and Financial Reporting for Nonexchange Transactions (GASB Statement No. 33)

This Statement establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources (for example, most taxes, grants, and private donations). This Statement is effective for financial statements for periods beginning after June 15, 2000 with earlier application encouraged. The Authority believes that such adoption will not have a material effect on the Authority's financial position.

Accounting and Financial Reporting for Securities Lending Transactions (GASB Statement No. 28)

This statement establishes standards of accounting and financial reporting for securities lending transactions in which governmental entities (lenders) transfer their securities to broker-dealers and other entities (borrowers) for collateral and simultaneously agree to return the collateral for the same securities in the future. This statement is not applicable to the Authority because the Authority did not enter into securities lending transactions during fiscal year 1999 or 1998.

Accounting for Derivative Instruments and Hedging Activities (FASB Statement No. 133)

This statement establishes accounting reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. It applies to all entities including not-for-profit organizations and requires that an entity recognize all derivatives as either assets or liabilities in the statement of condition and measure those instruments at fair value. This statement is effective for fiscal years beginning after June 15, 2000. The Authority believes that the implementation of this standard will not affect the financial position or result of operations since the Authority does not engage in derivative transactions.

Reclassifications

Certain amounts reflected in the 1998 financial statements have been reclassified to conform to the presentation for 1999.

2. Cash, Cash Equivalents and Investments

The Authority utilizes a cash and investment pool to manage certain investments. Although investments from different bond issuances and investments held for the Government may be combined within the pool, separate records are maintained of each account within the pool.

Earnings on pooled investments are allocated to each bond and depository account based on the percentage of each account's shares held in the pool to total shares outstanding in the pool.

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Cash and Cash Equivalents

As of September 30, 1999, cash consists of deposits in banks and is categorized following the "Guide to Implementation of GASB Statement 3 on Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements". The categories for deposits are the following:

Category 1 - Insured or collateralized with securities held by the Authority or by its agent in the Authority's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department or its agent in the Authority's name.

Category 3 - Uncollateralized

The carrying amount of the deposits approximates their fair value. The following presents the deposits categorized:

	Category			Bank Balance	Carrying Amount
	1	2	3		
<u>1999</u>					
Restricted	\$18,273,068	-	-	\$18,273,068	\$18,273,068
Unrestricted	\$2,823,517	-	\$ 662,307	\$ 3,921,859	\$ 3,485,824
<u>1998</u>					
Restricted	\$1,552,182	-	-	\$ 1,552,182	\$ 1,552,182
Unrestricted	\$6,264,880	-	\$6,060,048	\$13,139,700	\$ 12,324,928

Investments

Investments include restricted investments and investments held in trust.

Pursuant to the requirements of the Trust Indenture, certain assets of the Government are maintained in a reserve account controlled by the Authority, and may be used only for the payment of principal and interest on the 1998 Bonds Series A, B, C, D & E.

Pursuant to the requirements of the Loan Agreement between the bank and the Government, certain assets are maintained in a reserve account controlled by the Authority for the payment of principal and interest on the long-term note obtained to finance the acquisition of the West Indian Company.

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Investments in the reserve accounts at September 30, 1999 were as follows:

	1998 Bonds Series A, B, C, D & E	Revenue Bonds Series 1992 A 1992 B	Revenue Bonds Series 1994 A 1994 B and 1994 C	The West Indian Company Ltd.	VIPFA Y2K Project Fund	Total
Restricted:						
Debt service reserve	\$ 49,529,456			\$ 1,725,998		\$ 51,255,454
Project Fund			\$ 8,060,943		\$ 12,615,443	20,676,386
Construction Funds	85,732,048	\$ 11,031,952				96,764,000
	<u>\$ 135,261,504</u>	<u>\$ 11,031,952</u>	<u>\$ 8,060,943</u>	<u>\$ 1,725,998</u>	<u>\$ 12,615,443</u>	<u>\$168,695,840</u>

These investments may be categorized into three levels to provide an indication of risk assumed.

These categories are as follows:

- Category 1 - Includes investments that are insured, or registered, or for which the securities are held by the Authority or its agent in the Authority's name.
- Category 2 - Includes investments that are uninsured and/or unregistered for which the securities are held by the brokers' or dealers' trust department or agent, in the Authority's name.
- Category 3 - Includes investments that are uninsured and unregistered for which the securities are held by the broker or dealer, or by its trust department or agent but not in the Authority's name.

Restricted investments in the reserve accounts as of September 30, 1999 were all category 1 and consisted of the following:

Money Market Fund	\$106,408,434
Federal Home Loan Bank Notes	12,462,212
Federal National Mortgage Association Notes	48,099,196
Stocks	732,340
US Treasury Bond	239,382
Mutual Funds	498,498
Managed Funds	<u>255,778</u>
Total restricted investments	<u>\$168,695,840</u>

Investments in the reserve accounts at September 30, 1998 were as follows:

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	1998 Bonds Series A, B, C, D & E	Revenue Bonds Series 1992 A 1992 B	Revenue Bonds Series 1994 A 1994 B and 1994 C	Transportation Trust Fund	Total
Restricted:					
Debt service reserve	\$ 51,023,419				\$ 51,023,419
Project Fund			\$ 11,292,788		11,292,788
Construction Funds	105,056,473	\$ 18,984,294		\$ 15,286,621	139,307,388
	<u>\$ 156,079,892</u>	<u>\$ 18,984,294</u>	<u>\$ 11,292,788</u>	<u>\$ 15,286,621</u>	<u>\$ 201,623,595</u>

Restricted investments in the reserve accounts as of September 30, 1998 were all category 1 and consisted of the following:

Money Market Fund	\$ 140,068,916
Federal Home Loan Mortgage Corporation Notes	10,531,260
Federal Home Loan Bank Notes	12,880,312
Federal National Mortgage Association Notes	<u>38,143,107</u>
Total restricted investments	<u>\$ 201,623,595</u>

3. Loans Receivable

The Authority loaned the proceeds of the 1998 Bonds Series A, B, C, D and E to the Government. The loans, which are secured with pledged matching fund revenues pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, bear the same base interest rates, maturities, and repayment terms as the bonds payable (see Note 6).

The Authority loaned the proceeds of an April 1999 \$ 13.5 million project revenue bond issuance to the Government. The loan is secured by lease payments made by the Government to the Authority pursuant to a municipal lease purchase agreement dated April 13, 1999 and bears interest of 6.25% with a maturity date of January 1, 2005.

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4. Assets Held in Trust

As of September 30, 1999 and 1998, the Authority managed the following investments for the Government and one of its agencies:

	1999	1998
Virgin Islands Government:		
Pooled investments	\$ 9,992,980	\$ 9,130,044
Virgin Islands Government Agency:		
Pooled investments	<u>3,119,777</u>	<u>5,252,989</u>
	<u>\$ 13,112,757</u>	<u>\$14,383,033</u>

These restricted assets may be categorized to provide an indication of risk assumed. The risk categories are described in Note 3. All of the above investments are classified Category 1.

5. Property and Equipment

Property and equipment held by the Authority's subsidiary, WICO, at September 30, 1999 and 1998 follows:

	1999	1998
Land	\$ 5,037,451	\$ 5,037,451
Wharf, buildings and installations	19,178,730	17,042,673
Equipment and furnishings	995,991	844,593
Construction in progress	<u>1,414,043</u>	<u>2,104,891</u>
	26,626,215	25,029,608
Less - accumulated depreciation	<u>(3,876,896)</u>	<u>(3,111,407)</u>
	<u>\$22,749,319</u>	<u>\$21,918,201</u>

6. Bonds Payable

On April 13, 1999, on behalf of the Government, the Authority borrowed \$ 13.55 million under a long term note payable with an interest rate of 6.25%, to finance a portion of the Government's "Year 2000 compliance (Y2K) efforts including the costs related to transportation, installation and related hardware, software, consulting services and related expenses. On the same day, the Authority issued bonds in the same amount with the same terms to a single registered holder. The bond is payable in ten semi-annual payments of principal and interest with the first payment of interest only due January 1, 2000.

The Government is responsible for all principal and interest payments on the 1999 Project Revenue Bond. The principal and interest payments are funded by periodic lease payments.

On May 1, 1998 the Authority issued the 1998 Series A, B, C, D, and E Bonds, which proceeds amounted to \$541,820,000. These bonds are not guaranteed by the Government, however, the Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 1998 Series Bonds.

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These bonds were issued for the purpose of, among others, advance refund previously issued bonds. The advance refunding of these bond series 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 the old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately \$40 million and an economic gain of approximately \$19 million.

The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993 and Series 1994 Bonds. Approximately \$304,520,000 in funds were deposited into the Escrow Fund accounts. At September 30, 1999 and 1998, \$233,465,000 and \$242,085,000, respectively, of defeased bonds were outstanding.

The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest due and payable on the Revenue Anticipation Note. Approximately \$ 11,600,000 in additional working capital will be financed by the balance of the 1998 Series D Bond. The 1998 Series E Bonds were designated to fund the construction of certain capital projects.

The balance of the bond issuance of approximately \$1,062,391 was used for the payment of issuance and underwriter's expense.

Prior-Years Defeased 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, 1999 and 1998, \$186,370,000 and \$190,665,000, respectively, of defeased bonds were outstanding.

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

Pledged Revenues

The Government has pledged the Matching Fund Revenues to the Authority, as described below, to the timely payment of principal and interest on the 1998 Series A, B, C, D and E Bonds. Thus, all amounts to be received by the Government from federal excise tax, mostly in rum, are deposited directly in a trust account until the 1998 Bonds are paid in accordance with the Indenture of Trust.

The Secretary of the United States Department of Treasury makes 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. As a result, the term "matching fund revenues" is used to denote these payments.

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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.

A summary of bond activity (gross) during fiscal year 1999 and 1998 follows:

	1998 Bonds	Y2K Project Revenue Bonds	Total
Balance at 9/30/98	\$533,055,000	-	\$533,055,000
Bond Issuance	-	\$ 13,550,000	13,550,000
Principal payments	(10,530,000)	-	(10,530,000)
Balance at 9/30/99	<u>\$522,525,000</u>	<u>\$ 13,550,000</u>	<u>\$536,075,000</u>

Bonds payable at September 30, 1999 and 1998 are comprised of the following:

	1999	1998
1998 Series A, B, C, D and E Revenue & Refunding Bonds interest at 5.50% to 7.11%	\$ 522,525,000	\$ 533,055,000
1999 Y2K Project Revenue Bonds interest at 6.25%	<u>13,550,000</u>	<u>-</u>
Total Bonds Payable	536,075,000	533,055,000
Less: Deferred amount on defeased bonds	<u>(5,544,229)</u>	<u>(8,160,249)</u>
	<u>\$ 530,530,771</u>	<u>\$ 526,894,751</u>

Interest and principal on the 1999 Y2K bond is payable semi-annually on January 1 and July 1 with the first payment an interest only payment.

Interest on the 1998 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 1998 Series 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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Interest paid during the years ended September 30, 1999 and 1998 was as follows:

	1999	1998
1998 Revenue and Refunding Bonds	\$ 29,864,750	\$ 12,672,580
Revenue Bonds Series 1992A	-	7,404,206
Govt. Development Revenue Bonds Series 1994A	-	183,093
Govt. Development Revenue Bonds Series 1994B	-	127,234
Govt. Development Revenue Bonds Series 1994C	-	907,708
Highway Revenue Bonds Series 1989	-	673,955
	<u>\$ 29,864,750</u>	<u>\$ 21,968,776</u>

Maturity dates and debt service requirements as of September 30, 1999 for the 1998 bonds are as follows (in thousands):

October 1	Series 1998 A		Series 1998 B		Series 1998 C	
	Principal	Interest	Principal	Interest	Principal	Interest
2000	\$ -	\$ 15,821	\$ 4,050	\$ 733	3,960	\$ 4,289
2001	-	15,821	3,265	412	5,225	4,124
2002	-	15,821	2,410	228	6,575	3,862
2003	-	15,821	-	-	9,480	3,514
2004	-	15,821	-	-	9,990	3,057
2005-2009	13,135	78,938	-	-	45,940	6,628
20010-2014	77,205	67,876	-	-	-	-
2015-2019	101,530	44,261	-	-	-	-
2020-2024	88,040	16,288	-	-	-	-
2025	9,165	899	-	-	-	-
	<u>\$ 289,075</u>	<u>\$ 287,367</u>	<u>\$ 9,725</u>	<u>\$ 1,373</u>	<u>\$ 81,170</u>	<u>\$ 25,474</u>

October 1	Series 1998 D		Series 1998 E		All Series		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2000	\$ 3,175	\$ 2,096	\$ -	\$ 6,261	\$ 11,185	\$ 29,200	\$ 40,385
2001	3,355	1,921	-	6,261	11,845	28,539	40,384
2002	3,540	1,737	-	6,261	12,525	27,909	40,434
2003	3,745	1,542	-	6,261	13,225	27,138	40,363
2004	3,965	1,331	-	6,261	13,955	26,470	40,425
2005-2009	18,345	2,883	5,345	31,227	82,765	119,876	202,441
20010-2014	-	-	31,715	26,287	108,920	94,163	203,083
2015-2019	-	-	41,940	15,897	143,470	60,158	203,628
2020-2024	-	-	27,430	3,405	115,470	19,693	135,163
2025	-	-	-	-	9,165	899	10,064
	<u>\$ 36,125</u>	<u>\$11,510</u>	<u>\$106,430</u>	<u>\$ 108,121</u>	<u>\$ 522,525</u>	<u>\$ 433,845</u>	<u>\$956,370</u>

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Maturity dates and debt service requirements as of September 30, 1999 for the Y2K bond is as follows (in thousands):

January and July 1	Principal	Interest	Total
2000	1,175	1,030	2,205
2001	2,460	736	3,196
2002	2,620	580	3,200
2003	2,785	413	3,198
2004	2,960	236	3,196
2005	1,550	48	1,598
	<u>\$ 13,550</u>	<u>\$ 3,043</u>	<u>\$ 16,593</u>

Other Information

The 1998 Series A and E Bonds maturing after the dates below are redeemable at the option of the Authority at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

1998 Series A	Price
October 1, 2008 through September 30, 2009	101%
October 1, 2009 through September 30, 2010	100.5%
October 1, 2010 and thereafter	100%
1998 Series E	Price
October 1, 2008 through September 30, 2009	101%
October 1, 2009 through September 30, 2010	100.5%
October 1, 2010 and thereafter	100%

1998 Series B, C and D are not redeemable at the option of the Authority.

7. Short Term Note Payable

On July 1, 1993 the Authority borrowed under a short term note payable to a bank \$18,000,000 at an interest rate of 5.24% to finance the acquisition of WICO. On December 21, 1993, the short-term note was refinanced with a long-term loan in the amount of \$18,150,000 at an interest rate of 5.75%. The loan is payable in 239 monthly installments of \$127,428, including interest, and a final payment comprised of the principal sum outstanding and all accrued interest unpaid to the date of the final payment. Future minimum payments of principal for the five years subsequent to September 30, 1999 and thereafter are as follows:

2000	\$ 693,301
2001	734,234
2002	777,582
2003	823,491
2004	872,410
Thereafter	<u>10,949,272</u>
	<u>\$14,850,290</u>

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The Authority has pledged WICO revenues to the timely payment of principal and interest of this long term debt. Interest paid during fiscal years 1999 and 1998 for this loan amounted to approximately \$874,000 and \$910,000, respectively.

On March 12, 1999, WICO paid dividends amounting to \$1,000,000 to the Authority. Existing loan covenants on WICO's debt, restricting the payment of dividends were waived by the financial institution.

8. Commitments

The Authority is committed to provide capital, not to exceed \$ 5.5 million, to acquire an equity interest in a tourism project in St. Croix. During the 1996 fiscal year, the Authority entered into certain contracts to obtain professional services in connection with the development. In addition, the Authority entered into a five year lease for a property in St. Croix from February 15, 1996 through February 15, 2001 in connection with the development. The lease terms include three renewal periods of five years each. Future minimum lease payments for the initial rental period are:

<u>Period</u>	<u>Amount</u>
Year Ended September 30, 2000	\$35,000
Period Ended February 15, 2001	\$13,125

9. Contingency

The Authority has a loan receivable amounting to approximately \$523 million from the Government (see Note 3). The principal and interest to be paid by the Government to the Authority on the loans receivable is mainly derived from excise taxes on exported rum received by the Government as more fully described in Note 6 under Pledge Revenues. The principal and interest is subsequently passed-through for payment of the 1998 Bonds.

The Government maintains a program, established pursuant to law, in which it provides a subsidy to stabilize the cost of molasses to the only Virgin Islands rum producer 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 producer 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.

The Government is currently experiencing financial difficulties. Given the economic situation of the Government it is uncertain that such subsidy will continue in the future. In the event that the subsidy is discontinued, the rum producer could experience a decrease in its operations, and therefore result in a reduction of the federal excise taxes returned to the Government by the United States Government. As a result, the collectibility of the loans receivable from the Government may be impaired.

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September 30, 1999 and 1998

10. Concentration of Risk

All of the matching fund revenues are derived from the sale of rum produced in the Virgin Islands and subject to federal excise taxation. All the rum production in the Virgin Islands is done by a single producer.

11. Subsequent Events

On November 1, 1999, the Virgin Islands Public Finance Authority issued \$ 300,000,000 in 1999A Revenue Bonds. The bonds were issued to (i) pay certain working capital obligations of the Government, (ii) pay the Government's outstanding 1999 tax and revenue anticipation note, (iii) fund the Debt Reserve Account and (iv) pay certain cost of issuing the Series 1999A Bonds. The bonds are secured by a pledge of gross receipts taxes imposed and collected under the Virgin Islands Code. Interest on the bonds will be payable on April 1 and October 1 of each year, commencing on April 1, 2000.

The Authority under the same payment terms has loaned the proceeds of the 1999A Revenue Bonds to the Government of the Virgin Islands.

EXHIBIT I

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the Virgin Islands)
Combining Balance Sheet
September 30, 1999

	Operating Account	1996 Series Revenue & Refunding Series Bonds	Revenue Bonds Series 1992 A and Series 1992 B Account	Revenue Bonds Series 1994 A, Series 1994 B and Series 1994 C Account	Government Construction and Revolving	Transportation Trust	The West Indian Company Account	Depository Trust Account	Y2K Account	Total
Assets										
Cash	\$ 2,823,517						\$ 662,307			\$ 3,485,824
Short term investments							5,000,000			5,000,000
Loan receivable from Government Development Bank					\$ 124,270					124,270
Due from Government of the Virgin Islands		\$ 522,525,000							\$ 13,550,000	536,075,000
Bond discount		5,999,864					426,573			6,426,437
Restricted assets:										
Cash			\$ 1,652,166			\$ 15,013,562	1,607,340			18,273,068
Investments		49,529,456	11,031,952				1,725,998			62,287,406
Pooled investments		85,732,048		\$ 8,080,943					12,615,443	106,408,434
Assets held in trust -										
Pooled investments		9,862,960						\$ 3,119,777		13,112,757
Property and equipment							22,748,319			22,748,319
Other			6,966	2,293,726		56,018	1,454,629			3,811,371
Total assets	\$ 2,823,517	\$ 673,779,348	\$ 12,891,116	\$ 10,354,669	\$ 124,270	\$ 15,069,580	\$ 33,626,166	\$ 3,119,777	\$ 26,166,443	\$ 777,753,866
Liabilities and equity										
Liabilities										
Accrued expenses and other liabilities	\$ 109,796						\$ 1,459,275		\$ 402,266	\$ 1,971,337
Bonds payable		\$ 522,525,000							13,550,000	536,075,000
Deferred amount on defeased bonds		(5,544,229)								(5,544,229)
Long-term debt							14,850,290			14,850,290
Due to (from) other PFA funds	(260,048)		\$ 86,485		\$ 4,500	\$ 81,608		\$ 97,457		-
Due to VI Government	400,000	14,379,825	7,679,829	\$ 9,250,968		490,191				32,200,913
Payable from assets held in trust								3,022,320		3,022,320
Payable from restricted assets		128,242,903							12,356,035	140,598,938
Total liabilities	249,748	658,603,499	7,776,414	9,250,968	4,500	551,797	16,309,565	3,119,777	26,308,301	723,174,569
Equity:										
Contributed capital							6,000,000			6,000,000
Retained earnings (deficit):										
Restricted		14,175,849	4,914,702	1,103,701	119,770	14,517,783	11,316,601	-	(142,858)	46,005,546
Unrestricted	2,573,789									2,573,789
Total equity	2,573,789	14,175,849	4,914,702	1,103,701	119,770	14,517,783	17,316,601	-	(142,858)	54,579,317
Total liabilities and equity	\$ 2,823,517	\$ 673,779,348	\$ 12,891,116	\$ 10,354,669	\$ 124,270	\$ 15,069,580	\$ 33,626,166	\$ 3,119,777	\$ 26,166,443	\$ 777,753,866

EXHIBIT I (Cont.)

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the Virgin Islands)
Combining Statement of Revenues, Expenses and Retained Earnings
Year Ended September 30, 1999

	Operating Account	1998 Series Revenue and Refunding Series Bonds	Revenue Bonds Series 1992 A and Series 1992 B Account	Revenue Bonds Series 1994 A, Series 1994 B and Series 1994 C Account	Government Construction and Revolving Loan Account	Transportation Trust Fund	The West Indian Company Account	Depository Trust Account	Y2K Account	Total
Revenues										
Taxes, fees and fines										
Interest income:										
Loans receivable		\$ 29,864,750						\$ 254,649		\$ 30,119,399
Cash and investments	\$ 82,089	5,811,587	\$ 822,208	\$ 461,519	\$ 32	\$ 747,674	\$ 451,093		\$ 259,408	8,615,608
Other income	348,750	1,450,000					8,578,525			10,369,275
	410,839	37,126,337	822,208	461,519	32	747,674	9,021,618	254,649	259,408	49,104,282
Expenses										
Interest		30,480,770					874,484		402,266	31,757,520
General and administrative	1,190,413		18,062		55,730		6,267,012			7,531,207
Amortization of bond discount/issuance cost		439,015								439,015
Capital expenditure grants	350,000					944,717				1,294,717
	1,540,413	30,919,785	18,062		55,730	944,717	7,141,496		402,266	41,022,459
Income (loss) before interfund transfers, transfers to VAFPA, to the VI Government, and in lieu of taxes	(1,129,574)	6,206,552	804,154	461,519	(55,898)	(197,043)	1,880,122	254,649	(142,858)	8,081,823
Interfund transfers	2,857,278	(3,167,439)		513,051	(2,529)			(381)		-
Transfer to VI Government in lieu of taxes	(400,000)									400,000
	2,257,278	(3,167,439)		513,051	(2,529)		229,222			229,222
Net income (loss)	1,127,704	3,039,113	804,154	974,570	(58,227)	(197,043)	1,650,900	254,268	(142,858)	7,452,801
Dividend received/paid	1,000,000						(1,000,000)			-
Retained earnings at September 30, 1998	446,065	11,136,736	4,110,548	129,131	177,997	14,714,826	10,665,701	(254,268)		41,126,716
Retained earnings at September 30, 1999	\$2,573,789	\$ 14,175,849	\$ 4,914,702	\$ 1,103,701	\$119,770	\$14,517,783	\$11,316,601	\$ -	\$ (142,858)	\$ 48,579,317

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the Virgin Islands)
Combining Statement of Cash Flows
Year Ended September 30, 1999

EXHIBIT I (Cont.)

	Operating Account	1996 Series Revenue and Refunding Series Bonds	Revenue Bonds Series 1992 A and Series 1992 B Account	Revenue Bonds Series 1994 A, Series 1994 B and Series 1994 C Account	Government Construction and Revolving Loan Account	Transportation Trust Fund	The West Indian Company Account	Depository Trust Account	Y2K Account	Total
Cash flow from operating activities:										
Net income (loss)	\$ 1,127,704	\$ 3,039,113	\$ 804,154	\$ 974,570	\$ (58,227)	\$ (197,043)	\$ 1,650,900	\$ 254,288	\$ (142,858)	\$ 7,452,601
Adjustments to reconcile net income to net cash used in operating activities:										
Amortization of bond issuance costs		439,014					29,935			468,949
Amortization of deferred amount		616,020								616,020
Depreciation							841,087			841,087
Gain on sale of property and equipment							(3,234)			(3,234)
Changes in operating assets and liabilities:										
Increase in accounts and interest receivable			(6,906)			(56,018)	103,834			40,818
Decrease in cash and other assets held in trust					2,487			2,133,212		2,135,709
Decrease (increase) in accrued expenses and other liabilities	30,963						186,787		402,266	619,998
Increase (decrease) due to VI Government	408,000	(55,256)	(7,087,332)	(4,208,415)		(4,317,902)				(15,276,905)
Decrease in payable from assets held in trust								(2,387,500)		(2,387,500)
Increase (decrease) in payable from restricted assets		(23,991,848)				(1,089,239)			12,356,035	(12,639,050)
Total adjustments	439,963	(22,962,086)	(7,104,330)	(4,208,415)	2,487	(5,377,159)	1,158,369	(254,288)	12,759,301	(25,584,100)
Net cash provided by (used in) operating activities	1,568,667	(19,922,955)	(6,300,176)	(3,231,845)	(55,730)	(5,574,202)	2,809,269	-	12,615,443	(18,131,499)
Cash flows from investing activities:										
Acquisition of property and equipment							(1,880,826)			(1,880,826)
Purchase of short-term investments							(5,000,000)			(5,000,000)
Purchases of investments		(96,244,030)	(65,404,860)	(3,610,901)		(380,611)	(2,187,208)		(12,615,443)	(180,453,253)
Investment maturities		116,196,985	73,357,202	6,842,746		15,647,432	1,890,104			213,734,469
Proceeds from sale of property and equipment							11,845			11,845
Net cash (used in) provided by investing activities	-	19,952,955	7,952,342	3,231,845	-	15,266,821	(7,176,085)	-	(12,615,443)	28,612,235
Cash flows from capital and related financing activities:										
Issuance of loans receivable									13,550,000	13,550,000
Issuance of bonds payable		10,530,000			55,730					10,585,730
Decrease (increase) in loan receivable									(13,550,000)	(13,550,000)
Principal payments on bonds and loans payable		(10,530,000)					(654,654)			(11,184,654)
Payment of dividend	1,000,000						(1,000,000)			-
Net cash provided by (used in) capital and related financing activities	-	-	-	-	55,730	-	(1,654,654)	-	-	(598,924)
Net increase (decrease) in cash	2,568,667	-	1,652,166	-	-	9,692,419	(6,021,440)	-	-	7,881,812
Cash and restricted cash at beginning of year	264,850	-	-	-	-	5,321,143	8,291,087	-	-	13,877,080
Cash and restricted cash at end of year	\$ 2,833,517	-	1,652,166	-	-	15,013,562	\$ 2,269,647	-	-	\$ 21,758,692