

VIRGIN ISLANDS
PUBLIC FINANCE AUTHORITY
(a blended component of the Government
of the Virgin Islands)
**Report, Financial Statements and
Supplementary Information**
September 30, 2001 and 2000

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Report of Independent Accountants

To the Board of Directors of the
Virgin Islands Public Finance Authority

In our opinion, the accompanying balance sheet 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, 2001 and 2000 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. 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 of America 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 our opinion.

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.



January 4, 2002

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
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VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the Virgin Islands)
Balance Sheet
September 30, 2001 and 2000

	2001	2000
Assets		
Cash and cash equivalents	\$ 11,272,625	\$ 2,598,831
Short term investments	-	5,000,000
Loans receivable from the Government of the Virgin Islands	788,414,028	805,350,062
Loan receivable from the Government Development Bank	69,285	97,934
Bonds issuance and loan origination costs	13,081,077	14,118,120
	<u>812,837,015</u>	<u>827,164,947</u>
Restricted assets:		
Cash	28,749,451	23,981,919
Investments	69,324,163	123,283,313
Pooled investments	67,777,633	83,140,453
	<u>165,851,247</u>	<u>230,405,685</u>
Assets held in trust for the government and other government agencies:		
Pooled investments	22,886,286	47,963,269
Property and equipment	31,071,560	29,533,827
Other assets	5,983,686	4,658,617
	<u>\$ 1,038,629,794</u>	<u>\$ 1,139,726,345</u>
Liabilities and Equity		
Liabilities:		
Accrued expenses and other liabilities	\$ 2,564,729	\$ 2,016,333
Bonds Payable:		
Bonds payable	801,590,000	819,985,000
Deferred amount on defeased bonds	(4,312,189)	(4,928,209)
Bonds payable, net	<u>797,277,811</u>	<u>815,056,791</u>
Long-term debt	21,280,870	20,347,371
Due to the Government of the Virgin Islands	44,543,274	100,472,665
Payable from assets held in trust	13,834,498	12,729,315
Payable from restricted assets	86,856,741	126,346,307
Total liabilities	<u>966,357,923</u>	<u>1,076,968,782</u>
Equity:		
Contributed capital	6,000,000	6,000,000
Retained earnings:		
Restricted	62,610,175	55,991,641
Unrestricted	3,661,696	765,922
Total equity	<u>72,271,871</u>	<u>62,757,563</u>
Total liabilities and equity	<u>\$ 1,038,629,794</u>	<u>\$ 1,139,726,345</u>

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Statement of Revenues, Expenses and Retained Earnings
Years ended September 30, 2001 and 2000

	2001	2000
Revenues:		
Interest income:		
Loans receivable	\$ 47,711,374	\$ 47,325,962
Investments	11,143,104	15,273,733
Other income	11,220,267	9,506,421
	<u>70,074,745</u>	<u>72,106,116</u>
Expenses:		
Interest	49,707,351	48,518,171
General and administrative	9,778,703	8,235,715
Amortization of bond issuance and loan origination costs	1,037,023	989,700
Capital expenditure grants	37,360	5,184,284
	<u>60,560,437</u>	<u>62,927,870</u>
Income before transfers to the Government of the Virgin Islands	9,514,308	9,178,246
In lieu of taxes	<u>(500,000)</u>	<u>(500,000)</u>
Net income	9,014,308	8,678,246
Dividend received (paid)	500,000	(500,000)
Retained earnings at beginning of year	<u>56,757,563</u>	<u>48,579,317</u>
Retained earnings at end of year	<u>\$ 66,271,871</u>	<u>\$ 56,757,563</u>

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Statements of Cash Flows
Years ended September 30, 2001 and 2000

	2001	2000
Cash flows from operating activities:		
Net income	\$ 9,014,308	\$ 8,678,246
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Amortization of bond issuance costs	1,037,043	989,700
Amortization of deferred amount on defeased bonds	616,020	616,020
Depreciation and amortization	1,054,275	843,895
Loss (gain) on sale of property and equipment	-	352
Changes in operating assets and liabilities:		
Decrease in accounts and interest receivable	-	63,016
Increase in cash and other assets held in trust	(1,105,183)	(9,706,995)
Increase in other assets	(1,325,069)	(910,262)
Increase in accrued expenses and other liabilities	548,396	44,996
(Decrease) increase due to VI Government	(55,929,391)	68,271,752
Increase in payable from assets held in trust	1,105,183	9,706,995
Decrease in payable from restricted assets	(39,489,566)	(14,252,631)
Total adjustments	(93,488,292)	55,666,838
Net cash (used in) provided by operating activities	(84,473,984)	64,345,084
Cash flows from investing activities:		
Purchases of investments	(178,371,329)	(727,511,517)
Investment maturities and sales	278,875,465	664,640,074
Proceeds from sale of property and equipment	-	54,926
Net cash provided by (used in) investing activities	100,504,136	(62,816,517)
Cash flows from capital and related financing activities:		
Acquisition of property and equipment	(2,592,008)	(7,683,683)
Payment of bond issuance costs	-	(7,200,450)
Proceeds from sale of bonds	-	298,559,069
Issuance of loans receivable	-	(299,880,000)
Issuance of long-term debt	933,499	7,840,000
Principal payments on bonds and loans payable	(18,395,000)	(18,472,919)
Decrease in loan receivable	16,964,683	30,631,274
Collection (payment) of dividend	500,000	(500,000)
Net cash (used in) provided by capital and related financing activities	(2,588,826)	3,293,291
Net increase in cash and restricted cash	13,441,326	4,821,858
Cash and restricted cash at beginning of year	26,580,750	21,758,892
Cash and restricted cash at end of year	\$ 40,022,076	\$ 26,580,750

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Notes to Financial Statements
Years ended September 30, 2001 and 2000

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, and to private entities, (iv) to establish one or more revolving loan funds with the proceeds of bonds issued by the Authority or issued by the Government or any agency, authority or instrumentality thereof and, (v) to invest its funds and to arrange for the investment of the funds of the Government or any agency, authority or instrumentality thereof.

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

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

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

Activities of the Authority

The activities of the Authority are segregated into the following:

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.

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

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: 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: 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.

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Transportation Trust Fund 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") consists primarily of servicing cruise ships owned by established shipping lines.

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 funding 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.

King's Alley Management, Inc.: Activities related to Kings Alley Management, Inc., a wholly-owned subsidiary, formed on July 22, 2001 for the purpose of operating the King's Alley Hotel and King's Alley Walk, currently under foreclosure proceedings by the Authority.

Investments

Under GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for Most External Investments Pools" (GASB 31), the Authority reports investments at fair value in the balance sheet and changes in the fair value in the statement of income.

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.

Capital Expenditure Grants

During the 2001 fiscal year, approximately \$ 37,360 (2000 - \$ 5.2 million) 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 \$ 5.0 million (2000 - \$ 6.9 million) of capital expenditures were disbursed from the 1992 Revenue and 1994 Revenue Funds. During the 2001 fiscal year, approximately \$ 36.6 million (2000 - \$ 28.8 million) was disbursed from the 1998 Bond Fund. The disbursements from the 1992 Revenue and the 1994 Revenue Funds are recorded as a reduction of the Due to Government of the Virgin

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Islands in the accompanying balance sheet. The disbursements from the 1998 Bond Fund are recorded as a reduction in the Payable from Assets Held in Trust.

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.

Taxes

The Authority is exempt from the payment of U.S. Virgin Islands income and property taxes.

In December 1999, the Legislature of the Virgin Islands of the United States approved a bill which amended Bill No. 22-0216 dated May 1998. The new bill requires WICO to contribute the greater of ten percent of net revenues, as defined, or \$500,000 to the General Fund of the Virgin Islands. This payment shall be made annually in lieu of taxes.

Operating Transfers

Operating Transfers include distributions to the Government of the Virgin Islands from excess revenues of tax collections and interest earned on other funds.

Fair Value 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 the Government of Virgin Island: the carrying amounts reported in the balance sheet for these instruments approximate their fair values.

Bonds payable: Bonds were issued in November 1999, April 1999 and May 1998. These Bonds are reported at amortized cost.

Long-term debt: carrying value represents the debt's amortized cost.

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Effect of Recent GASB Statements

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. 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, will not have a material effect on the Authority's financial statements.

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 for 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.

Cash and Cash Equivalents

As of September 30, 2001, cash consists of deposits in banks and is categorized following the GASB Statement No. 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

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

	Category			Bank Balance	Carrying Amount
	1	2	3		
2001					
Restricted	\$ 21,733,349	\$ -	\$ 6,624,339	\$ 28,357,688	\$ 28,749,451
Unrestricted	2,102,733	-	9,377,608	11,480,341	11,272,625
2000					
Restricted	\$ 23,981,919	-	-	23,981,919	23,981,919
Unrestricted	2,984,041	-	51,685	3,035,726	2,598,831

Investments

investments include restricted investments and investments held in trust.

Pursuant to the requirements of the Indenture of Trust, certain assets of the Government are maintained in a reserve account controlled by the Authority, and may be used only for the payment of principal and interest on the 1999 Bonds Series A and 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, and to manage construction and protect funds for the defeased bonds.

Investments in the reserve accounts at September 30, 2001 were as follows:

	1999 Bond Series	1998 Bonds Series A, B, C, D & E	Revenue Bonds Series 1994 A 1994 B and 1994 C	VIPFA Y2K Project Fund	Total
Restricted					
Debt service reserve	\$ 33,713,603	\$ 59,469,586		\$ 1,544,359	\$ 94,727,548
Project Fund	16,870,767		\$ 3,968,640	1,181,075	22,020,482
Construction Funds		20,353,766			20,353,766
	<u>\$ 50,584,370</u>	<u>\$ 79,823,352</u>	<u>\$ 3,968,640</u>	<u>\$ 2,725,434</u>	<u>\$ 137,101,796</u>

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

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Notes to Financial Statements

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-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, all category 1, as of September 30, 2001 were as follows:

Money Market Fund	\$ 67,251,505
Federal Treasury Obligations Fund	16,870,767
Commercial Paper	34,239,731
Federal Home Loan Bank Notes	8,353,333
Federal National Mortgage Association Notes	10,386,460
	<u>\$ 137,101,796</u>

Investments in the reserve accounts at September 30, 2000 were as follows:

	1998 Bond Series	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	\$ 32,620,039	\$ 57,933,767			\$ 271,006	\$ 1,468,744	\$ 92,293,556
Project Fund	41,400,019			\$ 3,023,527		3,418,169	47,841,715
Construction Funds		54,960,730	\$ 11,327,765				66,288,495
	<u>\$ 74,020,058</u>	<u>\$ 112,894,497</u>	<u>\$ 11,327,765</u>	<u>\$ 3,023,527</u>	<u>\$ 271,006</u>	<u>\$ 4,886,913</u>	<u>\$ 206,423,766</u>

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Restricted investments in the reserve accounts, all category 1, as of September 30, 2000 were as follows:

Money Market Fund	\$ 123,280,846
Federal Treasury Obligations Fund	1,015,753
Commercial Paper	28,148,202
Federal Home Loan Mortgage Corporation	11,327,765
Federal Home Loan Bank Notes	12,550,412
Federal National Mortgage Association Notes	29,829,782
Equity Securities	<u>271,006</u>
	<u>\$ 206,423,766</u>

3. Loans Receivable

The Authority loaned the proceeds of 1999 Bonds Series A to the Government. The loan, which is secured with pledged gross receipts taxes collected pursuant to Title 3, Section 43 of the Virgin Islands Code, bear the same interest rate, maturities, and repayment terms as the bonds payable (see Note 6). Loans receivable are presented net of \$ 13,175,972 in pledged gross receipts taxes (as further described in Note 6) transferred by the Government to the Authority during the fiscal year ended September 30, 2001.

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.

4. Assets Held in Trust

As of September 30, 2001 and 2000, the Authority managed the following investments for the Government and one of its agencies:

	2001	2000
Virgin Islands Government:		
Pooled investments	\$ 8,954,331	\$ 35,136,497
Virgin Islands Government Agency:		
Pooled investments	<u>13,931,955</u>	<u>12,826,772</u>
	<u>\$ 22,886,286</u>	<u>\$ 47,963,269</u>

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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, 2001 and 2000 follows:

	2001	2000
Land	\$ 5,037,451	\$ 5,037,451
Wharf, buildings and installations	29,874,130	19,246,921
Equipment and furnishings	1,283,488	1,058,003
Construction in process	<u>526,520</u>	<u>8,864,785</u>
	36,721,589	34,207,160
Less - accumulated depreciation	<u>(5,650,029)</u>	<u>(4,673,333)</u>
	<u>\$ 31,071,560</u>	<u>\$ 29,533,827</u>

6. Bonds Payable

On November 1, 1999, the Authority issued the 1999 Series A Bonds, the proceeds of which amounted to \$ 299,880,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) pay certain working capital obligations of the Government, (\$248,081,940) (ii) repay the Government's outstanding 1999 tax and revenue anticipation note, (20,918,060) (iii) fund the Series Debt Service Reserve Accounts (\$23,126,096) and (iv) pay certain costs of issuing the bonds (\$7,200,450).

On April 13, 1999, the Authority borrowed under a project revenue bond \$ 13.55 million, with an interest rate of 6.25%, to finance a portion of the Government's Year 2000 (Y2K) compliance effort including the costs related to transportation, installation and related hardware, software, consulting services and related expenses. 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.

These bonds were issued for the purpose of, among others, the advance refund of 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 old debt service requirements and the new debt service. This refunding

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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, 2001 and 2000, \$214,480,000 and \$224,280,000 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 were 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.

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, 2001 and 2000, \$176,885,000 and \$181,775,000 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 Funds

The Government has pledged Gross Receipts Taxes not 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 1999 Series Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

The Government has pledged the Matching Fund Revenues, as described below, to the timely payment of principal and interest on the 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 from which the 1998 Bonds are paid in accordance with the Indenture of Trust.

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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. As a result, 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.

A summary of bond activity (gross) during fiscal year 2001 and 2000 follows (in thousands):

Bonds payable at September 30, 2001 and 2000 are comprised of the following:

	1998 Bonds	Y2K Project Revenue Bonds	Series 1999 A Revenue Bonds	Total
Balance at 9/30/00	\$ 511,340	\$ 12,375	\$ 296,270	\$ 819,985
Bond Issuance	-	-	-	-
Principal payments	(11,845)	(2,460)	(4,090)	(18,395)
	<u>\$ 499,495</u>	<u>\$ 9,915</u>	<u>\$ 292,180</u>	<u>\$ 801,590</u>

Bonds payable at September 30, 2001 and 2000 are comprised of the following:

	2001	2000
1998 Series A, B, C, D and E Revenue & Refunding Bonds Interest at 5.50% to 7.11%	\$ 499,495,000	\$ 511,340,000
1999 Y2K Project Revenue Bonds Interest at 6.25%	9,915,000	12,375,000
1999 Series A Revenue Bonds Interest at 4.20% to 6.50%	<u>292,180,000</u>	<u>296,270,000</u>
Total Bonds payable	801,590,000	819,985,000
Less: Deferred amount on defeased bonds	<u>(4,312,189)</u>	<u>(4,928,209)</u>
	<u>\$ 797,277,811</u>	<u>\$ 815,056,791</u>

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

(a blended component of the Government of the Virgin Islands)

Notes to Financial Statements

Years ended September 30, 2001 and 2000

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

Interest and principal on the 1999 Y2K bond is payable semi-annually on January 1 and July 1.

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.

Interest paid during the years ended September 30, 2001 and 2000 was as follows:

	2001	2000
1998 Revenue & Refunding Bonds	\$ 28,545,812	\$ 29,195,449
1999 Series Bonds	18,267,832	16,884,497
Y2K Bonds	890,547	1,030,000
	<u>\$ 47,704,191</u>	<u>\$ 47,109,946</u>

Maturity dates and debt service requirements as of September 30, 2001 for the Series 1999 A Revenue Bonds is as follows (in thousands):

October 1	Series 1999 A		Total
	Principal	Interest	
2002	\$ 4,305	\$ 18,053	\$ 22,358
2003	4,540	17,816	22,356
2004	4,765	17,589	22,354
2005	5,005	17,351	22,356
2006	5,285	17,070	22,355
2007-2011	31,245	80,538	111,783
2012-2016	41,990	69,789	111,779
2017-2021	57,205	54,572	111,777
2022-2026	78,220	33,564	111,784
2027-2030	59,620	7,448	67,068
	<u>\$ 292,180</u>	<u>\$ 333,790</u>	<u>\$ 625,970</u>

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Notes to Financial Statements
Years ended September 30, 2001 and 2000

Maturity dates and debt service requirements as of September 30, 2001 for the 1998 bonds are as follows (in thousands):

October 1	Series 1998 A		Series B		Series C		
	Principal	Interest	Principal	Interest	Principal	Interest	
2002	\$ -	\$ 15,821	\$ 2,410	\$ 171	\$ 6,575	\$ 3,879	
2003	-	15,821	-	-	9,480	3,550	
2004	-	15,821	-	-	9,990	3,076	
2005	-	15,821	-	-	10,555	2,527	
2006	-	15,821	-	-	11,150	1,946	
2007-2011	41,550	77,022	-	-	24,235	2,018	
2012-2016	66,925	59,343	-	-	-	-	
2017-2021	60,795	39,672	-	-	-	-	
2022-2025	119,805	13,067	-	-	-	-	
	<u>\$ 289,075</u>	<u>\$ 288,409</u>	<u>\$ 2,410</u>	<u>\$ 171</u>	<u>\$ 71,965</u>	<u>\$ 16,996</u>	

October 1	Series 1998 D		Series 1998 E		Total 1998 Bonds		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2002	\$ 3,540	\$ 1,739	\$ -	\$ 6,261	\$ 12,525	\$ 27,871	\$ 40,396
2003	3,745	1,545	-	6,261	13,225	27,177	40,402
2004	3,965	1,339	-	6,261	13,955	26,497	40,452
2005	4,210	1,101	-	6,261	14,765	25,710	40,475
2006	4,470	848	-	6,261	15,620	24,876	40,496
2007-2011	9,665	875	-	30,364	75,450	110,279	185,729
2012-2016	-	-	30,095	22,530	97,020	81,873	178,893
2017-2021	-	-	39,655	10,909	100,460	50,781	151,241
2022-2025	-	-	36,670	491	156,475	13,558	170,033
	<u>\$ 29,595</u>	<u>\$ 7,447</u>	<u>\$ 106,430</u>	<u>\$ 95,599</u>	<u>\$ 499,495</u>	<u>\$ 386,622</u>	<u>\$ 888,117</u>

Maturity dates and debt service requirements as of September 30, 2001 for the Y2K bond is as follows (in thousands):

January 1 and July 1	Principal	Interest	Total
2002	\$ 2,820	\$ 580	\$ 3,200
2003	2,785	413	3,198
2004	2,960	236	3,196
2005	1,550	48	1,598
	<u>\$ 9,915</u>	<u>\$ 1,277</u>	<u>\$ 11,192</u>

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Notes to Financial Statements
Years ended September 30, 2001 and 2000

Other Information

The Series 1999 A Bonds are not subject to optional redemption prior to October 1, 2010. The Series 1999 A Bonds maturing after October 1, 2010 are redeemable at the option of the Authority, at the respective redemption prices, expressed as a percentage of the principal amount redeemed as follows:

1999 Series A	Price
October 1, 2010 through September 30, 2011	101%
October 1, 2011 and thereafter	100%

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. Long-Term Debt

On July 1, 1993 the Authority borrowed under a short term note payable to a bank to finance the acquisition of WICO in the amount of \$18,000,000 with an interest rate of 5.24%. On December 21, 1993, the short-term note was refinanced with a long-term loan in the amount of \$18,150,000 with 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. During fiscal year 2000, WICO entered into a long-term agreement, with the permission of the Authority, to borrow \$8 million from a financial institution for property, plant and equipment improvements. The debt will be restructured at the end of the construction phase. Future minimum payments of principal for the five years subsequent to September 30, 2001 and thereafter are as follows:

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Notes to Financial Statements
Years ended September 30, 2001 and 2000

2002	\$ 967,654
2003	1,028,292
2004	1,092,783
2005	1,161,375
2006	1,234,331
Thereafter	<u>15,796,435</u>
	<u>\$ 21,280,870</u>

The Authority has pledged WICO revenues to the timely payment of principal and interest of this long term debt. Interest paid during fiscal years 2001 and 2000 for this loan amounted to \$1,108,345 and \$978,455, respectively.

In June 2001, WICO paid dividends to the Authority amounting to \$ 1.5 million. Existing loan covenants on WICO's debt, restricting the payment of dividends were waived by the financial institution.

8. Commitments

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

2002	\$ 45,000
2003	45,000
2004	45,000
2005	45,000
2006	48,750
Thereafter	<u>604,375</u>
	<u>\$ 833,125</u>

In August 2000, the Authority authorized a limited guaranty in the amount of \$ 5 million in favor of a private group in connection with the development of a property located near the WICO docking facility. The Authority's position is secured by all collateral granted by the Lender of the project and by a limited personal guarantee from an individual.

9. Contingencies

The Authority has a loan receivable amounting to approximately \$788 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 and gross receipts taxes, as more fully described in Note 6 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the 1999 and 1998 Bonds.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Notes to Financial Statements
Years ended September 30, 2001 and 2000

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.

The Authority has undertaken legal proceedings to foreclose certain property given as collateral for a loan granted by the Authority to a third party. These proceedings are still in the early stages. Consequently, the Authority has not recorded any property in its books related to these foreclosure proceedings. However, the Authority is managing the operations related to such property under its wholly-owned subsidiary, King's Alley Management, Inc.

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.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the Virgin Islands)

Combined Balance Sheet
September 30, 2001

	Operating Account	1999 Series A Revenue Bonds	1998 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 Loan Account	Transportation Trust	The West Indian Company Account	Depository Trust Account	Y2K Account	King's Alley Management, Inc.	Total
Assets	\$ 4,312,525							\$ 8,981,528		\$ 9,915,000	\$ 68,572	\$ 11,272,625
Cash and cash equivalents		\$ 279,004,028	\$ 499,495,000									786,414,028
Due from Government of the Virgin Islands						\$ 69,285						69,285
Loan receivable from Government Development Bank		7,432,538	5,121,836					528,703				13,081,077
Bond discount		4,183,517	18,739,793	\$ 7,915,522	\$ 5,000,000		\$ 9,534,310	2,116,102				28,749,451
Restricted assets:		50,584,370	61,083,859		3,968,640					2,725,434		69,324,163
Cash												67,777,633
Investments			8,954,331						\$ 13,931,955			22,886,286
Pooled investments					2,587,466			31,071,560		154,922	33,484	31,071,560
Assets held in trust -								2,165,578				5,983,686
Pooled investments												
Property and equipment												
Other assets												
Total assets	\$ 4,312,525	\$ 342,146,689	\$ 593,394,519	\$ 7,915,522	\$ 11,656,106	\$ 69,285	\$ 9,534,310	\$ 42,771,471	\$ 13,931,955	\$ 12,795,356	\$ 102,056	\$ 1,038,629,794
Liabilities and equity												
Liabilities												
Accrued expenses and other liabilities	\$ 561,893							\$ 1,398,874		\$ 154,922	\$ 51,040	2,564,729
Bonds payable		\$ 282,180,000	\$ 499,495,000							9,915,000		801,590,000
Deferred amount on defeased bonds			(4,312,189)									(4,312,189)
Long-term debt				\$ 96,485		\$ 4,500	61,806	21,280,870	\$ 97,457			21,280,870
Due to (from) other PFA funds	(280,048)											-
Due to Government of the Virgin Islands		18,259,550	15,839,002	1,715,416	\$ 8,629,306							44,543,274
Payable from assets held in trust												13,834,496
Payable from restricted assets		22,916,000	62,103,856							1,836,855		86,856,741
Total liabilities	701,845	\$ 333,355,550	\$ 573,225,859	\$ 1,811,901	\$ 8,629,306	\$ 4,500	\$ 61,806	\$ 22,677,744	\$ 13,931,955	\$ 11,906,907	\$ 51,040	\$ 986,357,923
Equity:												
Contributed capital								5,000,000				5,000,000
Retained earnings:												
Restricted	3,610,680	6,791,139	20,168,850	6,103,621	3,026,800	64,785	9,472,704	14,063,727		888,549	51,016	62,610,175
Unrestricted												3,661,896
Total equity	3,610,680	6,791,139	20,168,850	6,103,621	3,026,800	64,785	9,472,704	20,093,727	-	888,549	51,016	72,271,871
Total liabilities and equity	\$ 4,312,525	\$ 342,146,689	\$ 593,394,519	\$ 7,915,522	\$ 11,656,106	\$ 69,285	\$ 9,534,310	\$ 42,771,471	\$ 13,931,955	\$ 12,795,356	\$ 102,056	\$ 1,038,629,794

EXHIBIT I (Cont.)

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the Virgin Islands)
Combined Statement of Revenues, Expenses and Retained Earnings
September 30, 2001

	Revenue Bonds										Total
	Operating Account	1999 Series A Revenue Bonds	1993 Series Revenue & Refunding Series Bonds	Revenue Bonds Series 1992 A and Series 1992 B Account	Revenue Bonds Series 1994 A and Series 1994 C Account	Government Construction and Revolving Loan Account	Transportation Trust Account	The West Indian Company Account	Depository Trust Account	Y2K Account	King's Alley Management, Inc.
Revenues											
Interest income:											
Loans receivable		\$ 19,287,832	\$ 28,545,912			\$ 7,183	\$ 569,002	\$ 457,864	\$ -	\$ 890,547	\$ 47,711,374
Cash and investments	\$ 101,977	3,632,268	5,146,531	\$ 485,543	\$ 405,901			10,901,404		144,018	11,143,104
Other income											11,220,267
Expenses											
Interest		22,100,100	33,692,343	485,543	405,901	7,183	569,002	11,359,268	-	1,034,565	70,074,745
General and administrative		18,287,832	29,161,932	(2,379)		35,832	16,322	1,387,140		890,547	49,707,351
Amortization of bond issuances and loan origination cost	2,811,233	(157,790)	438,014					5,807,538			9,778,703
Capital expenditure grants		568,092					37,360	29,917			1,037,023
											37,360
Income (loss) before transfers to the VI Government and in lieu of taxes	2,811,233	18,678,134	29,600,846	(2,379)	-	35,832	53,682	8,224,895	-	890,547	60,560,437
	(2,708,256)	3,421,966	4,091,497	487,922	405,901	(28,640)	515,320	3,134,573	-	144,018	9,514,308
Transfers (to) from Funds in lieu of taxes	3,554,014	(157,790)	(3,396,224)	-	1,000,000	-	(1,000,000)	(500,000)	-	-	-
	-	-	-	-	-	-	-	(500,000)	-	-	(500,000)
	3,554,014	(157,790)	(3,396,224)	-	1,000,000	-	(1,000,000)	(500,000)	-	-	(500,000)
Net income (loss)	844,758	3,264,176	695,273	487,922	1,405,901	(28,640)	(484,680)	2,634,573	-	144,318	9,014,308
Dividend received (paid)	2,000,000							(1,500,000)			500,000
Retained earnings at beginning of year	765,922	5,320,963	19,473,577	5,615,669	1,620,899	93,434	9,957,384	12,958,154	-	744,531	56,757,563
Retained earnings at end of year	\$ 3,610,680	\$ 8,794,139	\$ 20,168,850	\$ 6,103,621	\$ 3,026,800	\$ 84,785	\$ 9,472,704	\$ 14,093,727	\$ -	\$ 892,549	\$ 66,271,871

EXHIBIT I (Cont.)

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY (a blended component of the Government of the Virgin Islands) Combined Statement of Cash Flows September 30, 2001

	Revenue Bonds											Total
	Operating Account	1999 Series A Revenue Bonds	1998 Series Revenue Refunding Series Bonds	Series 1992 A and Series 1992 B Account	Series 1994 B and Series 1994 C Account	Government Construction and Revolving Loan Account	Transportation Trust	The West Indian Company Account	Depository Trust Account	Y2K Account	King's Alley Management, Inc.	
Cash flow from operating activities:												
Net income (loss)	\$ 844,758	\$ 3,284,176	\$ 695,273	\$ 487,922	\$ 1,405,901	\$ (28,649)	\$ (484,580)	\$ 2,534,573	\$ -	\$ 144,018	\$ 51,016	\$ 9,014,308
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:												
Amortization of bond issuance costs		568,062	439,014					28,937				1,037,043
Amortization of deferred amount on defeased bonds			616,020					1,054,275				616,020
Depreciation and amortization												1,054,275
Changes in operating assets and liabilities:												
Decrease in cash and other assets held in trust		(942,236)			(93,740)			(522,562)	(1,105,183)	266,953	(33,484)	(1,105,183)
Increase (decrease) in accrued and other liabilities	720,621							43,688		(266,953)	51,040	548,396
Decrease in due to VI Government		(26,453,749)	(24,020,338)	(4,598,085)	(367,048)		(490,191)					(55,929,391)
Increase in payable from assets held in trust									1,105,183			1,105,183
Decrease in payable from restricted assets		(200,789)	(36,963,280)							(2,305,497)		(39,489,566)
Total adjustments	720,621	(27,028,682)	(59,948,604)	(4,598,085)	(480,783)	-	(490,191)	605,338	-	(2,305,497)	17,556	(93,488,292)
Net cash provided by (used in) operating activities	1,565,379	(23,704,506)	(59,253,311)	(4,110,143)	945,113	(28,649)	(974,871)	3,239,911	-	(2,161,479)	68,572	(84,473,984)

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the Virgin Islands)
Combined Statement of Cash Flows
September 30, 2001

	Revenue Bonds										
	1999 Series A Revenue Bonds	1998 Series Revenue & Refunding Series Bonds	Revenue Bonds Series 1982 A and Series 1992 B	Revenue Bonds Series 1984 A, Series 1984 B and Series 1984 C	Government Construction and Revolving Loan Account	The West Indian Company Account	Depository Trust Account	Y2K Account	King's Alley Management, Inc.	Total	
Cash flows from investing activities:											
Purchase of investments	(85,487,115)	(56,874,330)	(34,552,882)	(1,312,985)				(144,017)		(178,371,329)	
Investment maturities and sales	108,922,803	116,127,841	45,680,647	367,872		5,271,006		2,305,456		278,875,455	
Net cash provided by (used in) investing activities	-	59,253,311	11,327,765	(945,113)	-	5,271,006	-	2,161,479	-	100,504,136	
Cash flows from capital and related financing activities:											
Acquisition of property and equipment											
Decrease (increase) in loan receivable	2,631,034	11,845,000			28,649	(2,592,008)		2,460,000		(2,592,008)	
Principal payments on bonds and loan payable	(4,090,000)	(11,845,000)						(2,460,000)		(18,395,000)	
Issuance of long-term debt						933,499				933,499	
Collection (payment) of dividend	2,000,000					(1,500,000)				500,000	
Net cash provided by (used in) capital and related financing activities	2,000,000	-	-	-	28,649	(3,158,509)	-	-	-	(2,598,826)	
Net (decrease) increase in cash	3,565,378	-	7,217,622	-	-	5,352,408	-	-	68,572	13,441,328	
Cash and restricted cash at beginning of year	747,146	-	697,900	5,000,000	-	3,655,222	-	-	-	26,590,750	
Cash and restricted cash at end of year	\$ 4,312,525	\$ -	\$ 7,915,522	\$ 5,000,000	\$ -	\$ 9,007,830	\$ -	\$ -	\$ 68,572	\$ 40,022,078	