KPMG

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

General Purpose Financial Statements

September 30, 2001

(With Independent Auditors' Report Thereon)

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GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Table of Contents

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American International Plaza
Suite 1100
250 Ave. Muñoz Rivera
San Juan, PR 00918-1819

Independent Auditors' Report

The Honorable Governor of the Government of the
United States Virgin Islands:

We have audited the accompanying general purpose financial statements of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2001, as listed in the table of contents. These general purpose financial statements are the responsibility of the Government's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the following component units:

- The Virgin Islands Public Finance Authority, a blended component unit, which represents 6% and 0% of total assets and total revenue, respectively, of the special revenue funds (85% and 45% of the debt service funds, 68% and 9% of the capital projects funds, 1% of the total assets of the trust and agency funds and 58% of the total liabilities of the general long-term debt account group).

- The Virgin Islands Port Authority, the Virgin Islands Public Television System, the Virgin Islands Government Hospital and Health Facilities Corporation – Governor Juan F. Luis Hospital and Medical Center, the Virgin Islands Housing Authority, Economic Development Authority, and the Virgin Islands Housing Finance Authority, discretely presented component units, which represent 24% and 32%, respectively, of the total assets and total revenue of the public benefit corporations.

- The University of the Virgin Islands, discretely presented component units within the public university funds.

These financial statements referred to in the previous paragraph were audited by other auditors whose reports have been furnished to us, and in our report on the general purpose financial statements, insofar as it relates to the amounts included for such component units, is based solely on the reports of other auditors.

Except as discussed in the following six paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. The financial statements of the Virgin Islands Public Finance Authority and of the Employees' Retirement System of the Government of the Virgin Islands were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

At management's request, we did not audit the Virgin Islands Lottery. Those financial activities are recorded in the enterprise fund column and represent 3% and 32% of total assets and total revenue, respectively, in such column.

Our independent auditors' report on the 2001 financial statements of the Employees' Retirement System of the Government of the Virgin Islands (GERS), a component unit blended in the trust and agency funds (pension trust fund), was qualified because (i) we were not able to obtain sufficient audit evidence to determine whether adjustments were required to the financial statement cash overdraft balance with the Department of Finance of approximately $12.3 million in specially designated pooled accounts and (ii) we were unable to obtain sufficient audit evidence through independent confirmation or other alternative audit procedures about the reasonableness of amounts due from the Department of Finance amounting to approximately $3 million. No adjustments have been made in the trust and agency funds for these unreconciled differences.

The Government did not maintain certain accounting records related to governmental agencies included within the enterprise funds, particularly with respect to loans and advances, account receivable, and fixed assets stated at $10 million, $36,000, and $3 million, respectively, in the enterprise funds balance sheet column as of September 30, 2001. It was impracticable to extend our procedures sufficiently to determine the extent to which the general purpose financial statements as of and for the year ended September 30, 2001 may have been affected by these conditions.

The report of other auditors on the 2001 financial statements of Governor Juan F. Luis Hospital and Medical Center (Juan F. Luis Hospital), a discretely presented component unit, was qualified because they were unable to obtain sufficient audit evidence that $3 million of preautonomy accounts payable not recorded as a liability by the Juan F. Luis Hospital are the responsibility of the Government.

The reports of other auditors on the 2001 financial statements of the Virgin Islands Housing Finance Authority, a discretely presented component unit, were qualified because they were unable to obtain sufficient evidence to determine whether land held for sale amounting to approximately $25 million was fairly stated.

The general purpose financial statements include unaudited financial information of the Governor Roy L. Schneider Hospital, which is included as a discretely presented component unit.

The general purpose financial statements do not include the general fixed assets account group that should be included in order to conform with accounting principles generally accepted in the United States of America. The amounts that should be recorded in the general fixed assets account group are not known.

The general purpose financial statements do not include a provision for landfill closure and postclosure costs in the general long-term debt account group as required by accounting principles generally accepted in the United States of America. The effects of this departure from accounting principles generally accepted in the United States of America on the general long-term debt account group column have not been determined.

(Continued)

Because of the matters discussed in the fourth and sixth paragraphs of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the balance sheet of the enterprise fund type as of September 30, 2001, and on the statements of revenue, expenses, and changes in fund equity and cash flows for the enterprise fund type for the year then ended.

In our opinion, based on our audit and the reports of the other auditors, except for:

- the effects on the general purpose financial statements of the trust and agency funds of such adjustments, if any, as might have been determined to be necessary, had we been able to satisfy ourselves about: (i) the amount of cash on deposit with the Department of Finance of the Government; and (ii) the amounts due from the Department of Finance as of September 30, 2001, as discussed in the fifth paragraph of this report;

- the effects on the public benefit corporations' column of the adjustments, if any, as might have been determined to be necessary on the financial data of Juan F. Luis Hospital, had the other auditors been able to satisfy themselves about management's contention that the preautonomy accounts payable not recorded as a liability as of September 30, 2001 were responsibility of the Government, as discussed in the seventh paragraph of this report;

- the effects on the public benefit corporations column of the adjustments, if any, as might have been determined to be necessary on the financial information of the Virgin Islands Housing Finance Authority, had the other auditors been able to satisfy themselves about the fair presentation of land held for sale amounting to approximately $25 million, as discussed in the eighth paragraph of this report;

- the effects of the unaudited financial data of the Governor Roy L. Schneider Hospital in the public benefit corporations column as discussed in the ninth paragraph of this report;

- the effects of the omission of the general fixed assets account group as discussed in the tenth paragraph of this report; and

- the effects of not accounting for landfill closure and postclosure costs in the general long-term debt account group, as discussed in the eleventh paragraph of this report;

the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the general, special revenue, debt service, capital projects, and trust and agency fund types; the general long-term debt account group; and the public university funds and public benefit corporations of the Government of the United States Virgin Islands as of September 30, 2001, the results of operations of the general, special revenue, debt service, capital projects, expendable trust, and pension trust fund types, public university funds, and public benefit corporations for the year then ended, and the cash flows of the public benefit corporations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 1C, the Government has implemented Governmental Accounting Standard Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, as of June 30, 2001.

KPMG LLP

September 26, 2002

Stamp No. 1828050 of the Puerto Rico
Society of Certified Public Accountants
was affixed to the record copy of this report.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Balance Sheet – All Fund Types, Account Group, and Discretely Presented Component Units

September 30, 2001
(In thousands)

Assets and Other Debits		Government fund types: General	Special revenue	Debt service	Capital projects
Cash and cash equivalents (note 4)	$	99,066	—	23,151	32,189
Investments (note 4)		69,903	9,862	120,845	28,824
Receivables, net (note 5):					
Taxes		58,400	—	5,425	—
Federal government		—	22,358	—	491
Accounts		—	—	—	—
Loans and advances		—	—	—	—
Interfund loan (note 6)		—	3,100	—	11,500
Accrued interest		469	137	895	111
Other		345	324	—	81
Due from (note 6):					
Other funds		12,987	5,584	—	—
Primary government		—	—	—	—
Component units		2,498	—	—	—
Inventories		—	—	—	—
Food stamp coupons		—	5,520	—	—
Restricted assets (notes 4 and 7):					
Cash and cash equivalents		—	—	—	—
Investments		—	—	—	—
Other		—	—	—	—
Fixed assets, net (note 8)		—	—	—	—
Deferred charges		—	—	—	—
Other assets		—	—	—	—
Other debits:					
Amount available for debt service		—	—	—	—
Amount to be provided for retirement of general long-term obligations		—	—	—	—
Total assets and other debits	$	243,668	46,885	150,316	73,196

See accompanying notes to general purpose financial statements.

(Continued)

(Unaudited) proprietary fund type	Fiduciary fund type	General long-term debt account group	Totals primary government (memorandum only)	Component units		Totals reporting entity (memorandum only)
Enterprise	Trust and agency			Public university funds	Public benefit corporations	
$ 1,206	173,770	—	329,382	17,420	41,314	388,116
—	1,267,411	—	1,496,845	108	14,334	1,511,287
—	—	—	63,825	—	—	63,825
—	—	—	22,849	—	7,371	30,220
1,676	8,693	—	10,369	2,896	61,891	75,156
10,519	96,039	—	106,558	533	1,823	108,914
—	—	—	14,600	—	—	14,600
143	8,301	—	10,056	—	—	10,056
1,731	6,039	—	8,520	—	—	8,520
300	13,269	—	32,140	—	—	32,140
—	—	—	—	2,796	1,982	4,778
—	—	—	2,498	—	—	2,498
467	—	—	467	559	19,119	20,145
—	—	—	5,520	—	—	5,520
3,703	—	—	3,703	5,468	34,375	43,546
—	—	—	—	20,428	21,369	41,797
—	—	—	—	5,716	362	6,078
34,483	12,249	—	46,732	92,798	651,743	791,273
527	—	—	527	3,236	3,561	7,324
528	—	—	528	472	35,020	36,020
—	—	110,262	110,262	—	—	110,262
—	—	1,313,629	1,313,629	—	—	1,313,629
55,283	1,585,771	1,423,891	3,579,010	152,430	894,264	4,625,704

(Continued)

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Balance Sheet – All Fund Types, Account Group, and Discretely Presented Component Units, continued

September 30, 2001
(In thousands)

	Government fund types			
Liabilities	**General**	**Special revenue**	**Debt service**	**Capital projects**
Accounts payable and accrued liabilities	$ 34,882	8,353	—	9,429
Tax refunds payable	54,016	—	—	—
Securities lending transaction	—	—	—	—
Customer deposits	—	—	—	—
Due to (note 6):				
Other funds	10,873	10,322	—	6,201
Primary government	—	—	—	—
Component units	4,778	—	—	—
Due to federal government (note 10)	—	—	—	—
Interest payable	—	—	—	—
Deferred revenue	52,867	14,373	40,054	—
Line of credit	—	—	—	—
Notes payable (note 9)	—	—	—	—
Bonds payable (note 9)	—	—	—	—
Interfund loan payable (note 6)	14,600	—	—	—
Other liabilities	—	—	—	—
Other long-term liabilities (notes 9 and 10)	—	—	—	—
Total liabilities	172,016	33,048	40,054	15,630
Fund Equity and Other Credits				
Contributed capital	—	—	—	—
Investment in general fixed assets	—	—	—	—
Retained earnings:				
Reserved	—	—	—	—
Unreserved	—	—	—	—
Fund balances (note 3):				
Reserved for:				
Encumbrances	60,202	—	—	31,779
Debt service	—	—	110,262	—
Employees' pension benefits (note 11)	—	—	—	—
Unemployment benefits	—	—	—	—
Capital projects	—	—	—	25,787
Other specified purposes	—	—	—	—
Unreserved:				
Designated for specified purposes	—	—	—	—
Undesignated	11,450	13,837	—	—
Total fund equity (deficit) and other credits	71,652	13,837	110,262	57,566
Commitments and contingencies (notes 9 and 10)				
Total liabilities, fund equity, and other credits	$ 243,668	46,885	150,316	73,196

See accompanying notes to general purpose financial statements.

	(Unaudited) proprietary fund type Enterprise	Fiduciary fund type Trust and agency	General long-term debt account group	Totals primary government (memorandum only)	Component units Public university funds	Component units Public benefit corporations	Totals reporting entity (memorandum only)
$	4,922	43,874	—	101,460	6,393	56,069	163,922
	—	—	—	54,016	—	—	54,016
	—	170,659	—	170,659	—	—	170,659
	—	—	—	—	132	16,079	16,211
	4,647	97	—	32,140	—	—	32,140
	—	—	—	—	—	2,498	2,498
	—	—	—	4,778	—	—	4,778
	—	—	—	—	—	7,914	7,914
	—	—	—	—	—	3,872	3,872
	1,805	—	—	109,099	2,491	4,057	115,647
	—	—	—	—	—	20,000	20,000
	21,281	—	132,218	153,499	3,630	1,297	158,426
	—	—	825,515	825,515	26,188	152,008	1,003,711
	—	—	—	14,600	—	—	14,600
	4,560	75,918	—	80,478	484	18,609	99,571
	—	—	466,158	466,158	—	9,537	475,695
	37,215	290,548	1,423,891	2,012,402	39,318	291,940	2,343,660
	6,000	—	—	6,000	—	322,260	328,260
	—	—	—	—	70,063	—	70,063
	14,094	—	—	14,094	—	3,944	18,038
	(2,026)	—	—	(2,026)	—	276,120	274,094
	—	—	—	91,981	—	—	91,981
	—	—	—	110,262	5,830	—	116,092
	—	1,214,183	—	1,214,183	—	—	1,214,183
	—	64,621	—	64,621	—	—	64,621
	—	—	—	25,787	—	—	25,787
	—	—	—	—	28,623	—	28,623
	—	—	—	—	5,754	—	5,754
	—	16,419	—	41,706	2,842	—	44,548
	18,068	1,295,223	—	1,566,608	113,112	602,324	2,282,044
$	55,283	1,585,771	1,423,891	3,579,010	152,430	894,264	4,625,704

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Revenue, Expenditures, and
Changes in Fund Balances – All Governmental Fund
Types and Expendable Trust Funds

Year ended September 30, 2001
(In thousands)

		Government fund types				Fiduciary fund type	Totals
		General	Special revenue	Debt service	Capital projects	Expendable trust	(memorandum only)
Revenue:							
Taxes	$	391,612	2,058	151,301	1,527	—	546,498
Federal grants		—	136,850	—	9,287	—	146,137
Charges for services		7,083	4,408	—	388	—	11,879
Interest and other		49,401	10,605	6,997	3,086	15,050	85,139
Total revenue		448,096	153,921	158,298	14,288	15,050	789,653
Expenditures:							
Current:							
General government		133,352	47,119	—	—	10,192	190,663
Public safety		38,280	7,980	—	—	—	46,260
Health		22,730	18,936	—	—	—	41,666
Public housing and welfare		27,085	46,625	—	—	—	73,710
Education		123,877	22,976	—	—	—	146,853
Economic and agricultural development		13,484	363	—	—	—	13,847
Transportation and communication		26,781	286	—	—	—	27,067
Culture and recreation		9,639	12,497	—	—	—	22,136
Capital outlays		—	—	—	42,722	—	42,722
Debt service:							
Principal (note 9)		—	—	28,427	—	—	28,427
Interest		—	—	50,095	—	—	50,095
Total expenditures		395,228	156,782	78,522	42,722	10,192	683,446
Excess (deficiency) of revenue over (under) expenditures		52,868	(2,861)	79,776	(28,434)	4,858	106,207
Other financing sources (uses) (note 6):							
Operating transfers from other funds		120,604	8,360	—	—	425	129,389
Operating transfers to other funds		(4,925)	(39,798)	(79,362)	(3,304)	—	(127,389)
Operating transfers to component units		(64,230)	(924)	—	—	—	(65,154)
Total other financing sources (uses), net		51,449	(32,362)	(79,362)	(3,304)	425	(63,154)
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses		104,317	(35,223)	414	(31,738)	5,283	43,053
Fund balances (deficit), beginning of year		(32,665)	49,060	109,848	89,304	75,757	291,304
Fund balances, end of year	$	71,652	13,837	110,262	57,566	81,040	334,357

See accompanying notes to general purpose financial statements.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Revenue and Expenditures
Budget and Actual – General Fund
Non-GAAP Budgetary Basis

Year ended September 30, 2001
(In thousands)

	Budget	Actual	Variance
Revenue:			
Taxes	$ 427,294	391,612	(35,682)
Charges for services	6,568	6,190	(378)
Interest and other	13,347	44,801	31,454
Total revenue	447,209	442,603	(4,606)
Expenditures:			
Current:			
General government	195,134	139,341	55,793
Public safety	48,201	36,753	11,448
Health	32,717	24,605	8,112
Public housing and welfare	39,409	25,519	13,890
Education	131,385	119,652	11,733
Economic and agricultural development	11,656	18,647	(6,991)
Transportation and communication	28,853	32,203	(3,350)
Culture and recreation	16,017	10,035	5,982
Total expenditures	503,372	406,755	96,617
Excess (deficiency) of revenue over expenditures	(56,163)	35,848	92,011
Other financing sources (uses) (notes 6 and 9):			
Operating transfers from other funds	106,872	120,604	13,732
Operating transfers from component units	2,000	—	(2,000)
Operating transfers to other funds	(7,144)	(4,925)	2,219
Operating transfers to component units	(65,305)	(64,230)	1,075
Total other financing sources (uses), net	36,423	51,449	15,026
Excess of revenue and other financing sources over expenditures and other financing uses	$ (19,740)	87,297	107,037

See accompanying notes to general purpose financial statements.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Statement of Changes in Net Plan Assets
Pension Trust Fund

Year ended September 30, 2001
(In thousands)

Additions:		
Contributions:		
Employer	$	43,387
Plan members		25,724
Total contributions		69,111
Investment loss:		
Net depreciation of fair value of investments (note 4)		(113,275)
Interest and dividends		49,185
Real estate – rental income (net of related expenses)		4,823
		(59,267)
Less investment expense		4,585
Net investment loss		(63,852)
Total additions		5,259
Deductions:		
Benefits paid		106,433
Refunds of contributions		4,985
Administrative and operational expenses		9,748
Total deductions		121,166
Net decrease		(115,907)
Net assets held in trust for pension benefits:		
Beginning of year		1,330,090
End of year	$	1,214,183

See accompanying notes to general purpose financial statements.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Revenue, Expenses, and Changes
in Fund Equity – All Proprietary Fund Type
and Discretely Presented Component Units

Year ended September 30, 2001
(In thousands)

	(Unaudited) primary government proprietary fund type	Component units
	Enterprise	**Public benefit corporations**
Operating revenue – charges for services	$ 42,527	247,692
Operating expenses:		
Cost of services	40,696	282,303
Depreciation and amortization	1,120	30,589
Other	—	11,280
Total operating expenses	41,816	324,172
Operating income (loss)	711	(76,480)
Nonoperating revenue (expenses):		
Operating grants	—	32,098
Interest income	458	8,268
Interest expense	(1,387)	(12,229)
Other, net	—	5,135
Total nonoperating (expenses) revenue, net	(929)	33,272
Loss before operating transfers	(218)	(43,208)
Capital contributions	—	10,227
Operating transfers from primary government (note 6)	—	42,302
Operating transfers to other funds (note 6)	(2,000)	—
Operating transfers, net	(2,000)	42,302
Net (loss) income	(2,218)	9,321
Fund equity, beginning of year as restated (note 13)	20,286	593,003
Fund equity, end of year	$ 18,068	602,324

See accompanying notes to general purpose financial statements.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Cash Flows –
All Proprietary Fund Type and Discretely Presented Component Units

Year ended September 30, 2001
(In thousands)

	(Unaudited) primary government proprietary fund type	Component units	Totals reporting entity (memorandum only)
	Enterprise	Public benefit corporations	
Cash flows from operating activities:			
Operating income (loss)	$ 711	(76,480)	(75,769)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,120	30,589	31,709
Provision for uncollectible accounts	—	23,248	23,248
Amortization of debt discount	—	151	151
Changes in assets and liabilities:			
Increase in:			
Receivables, net	(1,219)	(17,139)	(18,358)
Accounts payable and accrued liabilities	278	6,518	6,796
Customer deposits	—	1,227	1,227
Due to primary government	—	2,498	2,498
Due to other funds	173	—	173
Other long-term liabilities	—	15	15
Due from primary government	—	1,953	1,953
Deferred revenue	—	1,253	1,253
Other liabilities	233	1,524	1,757
Decrease in:			
Inventories	—	614	614
Other assets	1,169	811	1,980
Total adjustments	1,754	53,262	55,016
Net cash provided by (used in) operating activities	2,465	(23,218)	(20,753)
Cash flows from noncapital financing activities:			
Operating grant received	—	32,098	32,098
Operating transfers to other funds	(2,000)	—	(2,000)
Operating transfers from primary government	—	42,302	42,302
Other noncapital financing activities	—	2,064	2,064
Net cash provided by (used in) noncapital financing activities	$ (2,000)	76,464	74,464

See accompanying notes to general purpose financial statements.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Cash Flows –
All Proprietary Fund Type and Discretely Presented Component Units, continued

Year ended September 30, 2001
(In thousands)

	(Unaudited) primary government proprietary fund type Enterprise	Component units Public benefit corporations	Totals reporting entity (memorandum only)
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	$ (2,636)	(58,950)	(61,586)
Proceeds from issuance of bonds and notes	934	1,202	2,136
Proceeds from line of credit	—	10,000	10,000
Principal paid on bonds and notes	—	(16,321)	(16,321)
Interest paid on bonds and notes	(1,387)	(11,178)	(12,565)
Retirement of equipment	—	717	717
Capital grants received	—	10,227	10,227
Other capital and related financing activities	—	946	946
Net cash used in capital and related financing activities	(3,089)	(63,357)	(66,446)
Cash flows from investing activities:			
Purchase of investment securities	—	(6,268)	(6,268)
Proceeds from sales and maturities of investment securities	5,271	13,596	18,867
Interest and dividends on investments	458	7,994	8,452
Net cash provided by investing activities	5,729	15,322	21,051
Net increase in cash and cash equivalents	3,105	5,211	8,316
Cash and cash equivalents, beginning of year as restated (note 13)	1,804	70,478	72,282
Cash and cash equivalents, end of year	$ 4,909	75,689	80,598

See accompanying notes to general purpose financial statements.

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Changes in Fund Balances
Public University Funds

Year ended September 30, 2001
(In thousands)

		Current funds		Loan
		Unrestricted	Restricted	funds
Revenue and other additions:				
Unrestricted current funds revenue	$	9,946	—	—
Federal grants and contracts – restricted		325	8,835	—
Other grants and contracts		—	665	—
Private gifts, grants, and contracts – restricted		1,014	1,180	—
Interest and dividend income		250	—	27
Expended for plant facilities		—	—	—
Retirement of indebtedness		—	—	—
Other additions		955	—	—
Total revenue and other additions		12,490	10,680	27
Expenditures and other deductions:				
Educational and general expenditures		25,271	12,076	—
Auxiliary enterprise expenditures		4,293	—	—
Indirect costs recovered		(345)	345	—
Expended for plant facilities		—	—	—
Investment expense		—	—	—
Retirement of indebtedness – principal		—	—	—
Interest on indebtedness		—	—	—
Other		—	—	2
Total expenditures and other deductions		29,219	12,421	2
Transfers among funds – additions (deductions):				
Operating transfers from primary government		18,155	604	—
Mandatory – restricted funds		(629)	629	—
Plant funds		(743)	—	—
Total transfers among funds		16,783	1,233	—
Net increase (decrease) in fund balances		54	(508)	25
Fund balances, beginning of year		2,788	4,210	976
Fund balances, end of year	$	2,842	3,702	1,001

See accompanying notes to general purpose financial statements.

	Endowment and similar funds	Plant funds			Totals (memorandum only)
		Unexpended	Retirement of indebtedness	Investment in plant	
$	—	—	—	—	9,946
	—	2,675	—	—	11,835
	—	—	—	—	665
	88	—	—	—	2,282
	—	508	282	—	1,067
	—	—	—	1,336	1,336
	—	302	—	1,753	2,055
	—	—	—	—	955
	88	3,485	282	3,089	30,141
	—	—	—	—	37,347
	—	—	—	—	4,293
	—	—	—	—	—
	—	4,171	—	—	4,171
	805	—	—	—	805
	—	—	2,055	—	2,055
	—	—	1,816	—	1,816
	929	99	49	—	1,079
	1,734	4,270	3,920	—	51,566
	900	—	3,193	—	22,852
	—	—	—	—	—
	(560)	658	645	—	—
	340	658	3,838	—	22,852
	(1,306)	(127)	200	3,089	1,427
	26,007	5,100	5,630	66,974	111,685
$	24,701	4,973	5,830	70,063	113,112

GOVERNMENT OF THE UNITED STATES VIRGIN ISLANDS

Combined Statement of Current Funds Revenue, Expenditures, and Other Changes – Public University Funds

Year ended September 30, 2001
(In thousands)

	Current funds Unrestricted	Current funds Restricted	Totals (memorandum only)
Revenue:			
Tuition and fees	$ 6,323	—	6,323
Federal grants and contracts	325	9,132	9,457
Private gifts, grants, and contracts	1,014	1,025	2,039
Investment income	250	—	250
Sales and services of auxiliary enterprises	3,623	—	3,623
Other sources	955	208	1,163
Total current funds revenue	12,490	10,365	22,855
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	8,323	1,177	9,500
Research	403	3,631	4,034
Public service	569	2,934	3,503
Academic support	1,270	1,325	2,595
Student services	1,972	70	2,042
Operation and maintenance of plant	4,199	129	4,328
Institutional support	7,878	85	7,963
Student aid	312	2,839	3,151
Educational and general expenditures	24,926	12,190	37,116
Mandatory transfers for restricted current fund matching grant	629	(629)	—
Total educational, general, and mandatory transfers	25,555	11,561	37,116
Auxiliary enterprise expenditures	4,293	—	4,293
Total expenditures and mandatory transfers	29,848	11,561	41,409
Other transfers and additions (deductions):			
Transfer to restricted, endowment, and plant funds	(743)	—	(743)
Operating transfers from primary government	18,155	1,824	19,979
Excess of restricted receipts (under) transfers to revenue	—	(1,136)	(1,136)
Total other transfers and additions (deductions)	17,412	688	18,100
Net increase (decrease) in fund balances	$ 54	(508)	(454)

See accompanying notes to general purpose financial statements.

(1) Summary of Significant Accounting Policies

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

The accompanying general purpose financial statements of the Government have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America for governments as prescribed by the Governmental Accounting Standards Board (GASB) which is the standard-setting body for establishing governmental accounting and financial reporting principles in the United States. The financial statements of the University of the Virgin Islands, which are included as a discretely presented component unit (public university funds), are based on the American Institute of Certified Public Accountants (AICPA) College Audit Guide model. All references to financial information pertaining to the proprietary funds contained within the notes to the general purpose financial statements of the Government are unaudited.

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

A. Financial Reporting Entity

The Government follows the provisions of GASB Statement No. 14, *The Financial Reporting Entity*. This standard requires that the Government's financial reporting entity be defined according to specific criteria. According to the standard for financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable, and other organizations for which the nature and significance of their relationship with the Government are such that exclusion would cause the general purpose financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (i) the ability of the PG to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the PG. The financial statements of the following component units are included in the financial reporting entity either as blended or as discretely presented component units in accordance with GAAP.

i. Blended Component Units

The following public benefit corporations, while legally separate from the Government, meet the criteria to be reported as part of the PG and were blended into the appropriate funds and account groups:

(a) ***Virgin Islands Public Finance Authority***

The Virgin Islands Public Finance Authority (PFA) was created as a public corporation and autonomous governmental instrumentality by Act No. 5365, the Government Capital Improvement Act of 1988, with the purposes of aiding the Government in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, PFA has the power, among other things, to borrow money and issue bonds and to lend the proceeds of its bonds to the Government or any governmental instrumentality. The powers of PFA are exercised by a board of directors consisting of the Governor (Chairperson), the Commissioner of Finance, the Director of the Office of Management and Budget, and two representatives of the private sector appointed by the Governor with the advice and consent of the Legislature. PFA activities are blended within the PG because it is so intertwined with the Government that, in substance, they are the same.

(b) ***Employees' Retirement System of the Government of the Virgin Islands***

The Employees' Retirement System of the Government of the Virgin Islands (known as GERS) was created as an independent and separate agency of the Government with the purpose of administering the Government employees' defined-benefit pension plan established as of October 1, 1959. The responsibility for the proper operation of GERS is vested in a board of trustees composed of seven members appointed by the Governor with the advice and consent of the Legislature. GERS is a blended component unit reported as the pension trust fund because it provides services and benefits almost exclusively to the PG.

Complete financial statements of the blended component units can be obtained directly by contacting their respective administrative offices.

Administrative offices

Virgin Islands Public Finance Authority
Government Development Bank Building
1050 Norre Gade
St. Thomas, VI 00802

Employees' Retirement System of the Government of the Virgin Islands
GERS Complex
Veterans Drive
St. Thomas, VI 00802

(Continued)

ii. Discreetly Presented Component Units

The following component units, consistent with GASB Statement No. 14, are discretely presented in the general purpose financial statements because of the nature of the services they provide and the Government's ability to impose its will. The public university funds financial information is presented in a separate column due to its reporting model being different from that followed by the other component units presented under the public benefit corporations column. The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

(a) Public University Funds

University of the Virgin Islands

The University of the Virgin Islands (the University) was organized as an instrumentality of the Government under Act No. 852 of March 16, 1962 in accordance with Section 16(a) of the Revised Organic Act of 1954, as amended. The purpose of the University is the stimulation and utilization of the intellectual resources of the people of the U.S. Virgin Islands and the development of a center of higher education. The powers of the University are exercised by a board of trustees consisting of 17 members as follows: The Chairman of the Board of Education, the Commissioner of Education, and the President of the University, all serving as members ex officio, 10 other members appointed by the Governor with the advice and consent of the Legislature, two other members elected by the board of trustees, one representative of the student body, and one representative of the teaching faculty. The University was not organized as a self-sustaining entity and therefore, receives substantial financial and other support from the Government.

(b) Public Benefit Corporations

Virgin Islands Port Authority

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

(Continued)

Virgin Islands Water and Power Authority

The Virgin Islands Water and Power Authority (WAPA) was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 1248 of August 13, 1964, with the purpose of operating the water production and electric generation, and distributing them in the U.S. Virgin Islands. The powers of WAPA are exercised by a governing board consisting of nine members, all appointed by the Governor with the advice and consent of the Legislature, from which three shall be heads of cabinet-level executive departments or agencies and six shall not be employees of the Government. WAPA is required by its bond resolutions to maintain separate accounting and issue separate audited financial statements for each system (the Electric System and Water System).

Virgin Islands Public Television System

The Virgin Islands Public Television System (PTS) was created as a body corporate and politic constituting a public corporation and autonomous instrumentality by Act No. 2364 of November 15, 1968, with the purpose of advancing the general welfare, education, cultural development, and awareness of public affairs of all the population of the U.S. Virgin Islands and to provide an effective supplement to the in-school education of children. The powers of PTS are exercised by a board of directors consisting of the Commissioner of Education, the Chairman of the Board of Education, three members appointed by the President of the Legislature, and four members, not more than two of whom should be employed by the Government and appointed by the Governor with the advice and consent of the Legislature. In addition, the Director of the Office of Management and Budget, the President of the University, and the General Manager of PTS are ex officio members of the board who are not entitled to vote.

Magens Bay Authority

Magens Bay Authority (MBA) was created as a corporate instrumentality of the Government by Act No. 2085 of December 20, 1967, with the purpose of acquiring, improving, and operating parks and beaches. The powers of MBA are exercised by a board of directors consisting of the Governor with power to vote by proxy and six members appointed by the board of directors.

Virgin Islands Government Hospital and Health Facilities Corporation

The Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC), created by Act No. 6012 of August 23, 1994, was inactive until April 30, 1999. Its purpose is to provide health care services and hospital facilities to the people of the U.S. Virgin Islands. The powers of VIGHHFC are exercised by a board of directors consisting of 15 members as follows: the Director of the Office of Management and Budget, the Commissioner of Finance, and 13 other members appointed by the Governor with the advice and consent of the

(Continued)

Legislature. The VIGHHFC is composed of the Governor Roy L. Schneider Hospital located in St. Thomas and the Governor Juan F. Luis Hospital and Medical Center located in St. Croix. Both entities issue separate financial statements. The general purpose financial statements include the unaudited financial information of Roy L. Schneider Hospital and the audited financial information of Juan F. Luis Hospital and Medical Center as of September 30, 2001.

Virgin Islands Housing Authority

The Virgin Islands Housing Authority (VIHA) was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 903 of June 18, 1962 with the purpose of providing housing for low-income families. The powers of VIHA are exercised by the board of commissioners consisting of seven commissioners as follow: the Commissioner of Housing and Community Renewal and six other members appointed by the Governor.

Economic Development Authority

The Economic Development Authority (EDA) was created by Act No. 6390 of December 21, 2000 as a body corporate and politic constituting a public corporation and semiautonomous instrumentality of the Government, which is governed by a board consisting of seven members appointed by the Governor with the advice and consent of the Legislature. EDA was created as an umbrella authority to assume, integrate, and unify the functions of the Government Development Bank, the Industrial Development Commission, the Virgin Islands Industrial Park Development Corporation, and the Small Business Development Agency under one executive board.

Virgin Islands Housing Finance Authority

The Virgin Islands Housing Finance Authority (VIHFA) was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 4636 of October 20, 1981, with the purpose of stimulating low– and moderate-income housing construction and home ownership through the issuance of revenue bonds to obtain funds to be used for low-interest mortgage loans to qualified purchasers of low- and moderate-income housing. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with the advice and consent of the Legislature.

(Continued)

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

Administrative offices	
University of the Virgin Islands 2 John Brewer's Bay St. Thomas, V.I. 00802	Virgin Islands Government Hospital and Health Facilities Corporation 9048 Sugar Estate St. Thomas, V.I. 00802
Virgin Islands Port Authority PO Box 301707 St. Thomas, V.I. 00803	Virgin Islands Housing Authority 42 Annas Retreat St. Thomas, V.I. 00802
Virgin Islands Water and Power Authority PO Box 1450 St. Thomas, V.I. 00804	Economic Development Authority 1050 Norre Gade #5 St. Thomas, V.I. 00802
Virgin Islands Public Television System PO Box 7879 St. Thomas, V.I. 00801	Virgin Islands Housing Finance Authority 210-3A Altona Frostco Center Building St. Thomas, V.I. 00802
Magens Bay Authority PO Box 10583 St. Thomas, V.I. 00802	

All financial statements of the discretely presented component units have a year-end of September 30, 2001, except for WAPA and VIHA that have a year-end of June 30, 2001 and December 31, 2000, respectively.

B. Basis of Presentation

The Government reports its financial position and results of operations in funds and account groups, each of which is considered an independent fiscal entity and discrete presentations of component units. The operations of each fund are accounted for within a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue, and expenditures/expenses.

Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements. Account groups are a reporting device to account for certain assets and liabilities of the governmental funds not recorded directly in those funds. They are not considered funds because they do not report expendable available financial resources and related liabilities. For financial reporting purposes, the Government reporting entity is divided into the PG and its component units. Individual funds of the PG are classified into three categories: governmental funds, proprietary funds, and fiduciary funds.

(Continued)

Discretely presented component units are classified into public university funds and public benefit corporations.

The Government has established the following fund categories, fund types, account groups, and discrete presentation of component units:

i. **Governmental Fund Types**

Governmental funds are used to account for the general government functions of the Government. The following are the governmental fund types:

- *General Fund* – The general fund is the primary operating fund of the Government. It is used to account for all financial transactions, except those required to be accounted for in another fund.
- *Special Revenue Funds* – Special revenue funds are used to account for the proceeds of specific revenue sources (other than debt service or capital projects) such as federal grants, that are legally restricted to expenditures for specific purposes.
- *Debt Service Funds* – The debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs other than long-term debt from the operations of proprietary fund types and discretely presented component units.
- *Capital Projects Funds* – Capital projects funds are used to account for the financial resources used for acquisition or construction of major capital facilities not being financed by proprietary fund types and discretely presented component units.

ii. **Proprietary Fund Types**

Government proprietary fund types include the enterprise funds that are used to account for operations that are financed and operated in a manner similar to private business enterprises and where net income and capital maintenance are measured. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges (see note 12).

iii. **Fiduciary Fund Types**

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

- *Expendable Trust Funds* – used to account for trusts for which principal and income may be expended for designated purposes.
- *Pension Trust Fund* – used to account for the assets, liabilities, and fund equity held in trust for the public employees' retirement system. They account for assets of which the principal may not be spent for general government purposes.

- Agency Funds – custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

iv. **Account Groups**

Account groups establish control and accountability over the Government's general long-term obligations. The general long-term debt account group is used to account for long-term obligations of the Government including bonds and notes payable and other long-term liabilities excluding the liabilities of proprietary funds, pension trust fund, and discretely presented component units.

No general fixed assets account group is presented in the accompanying combined balance sheet as no current balances are maintained.

v. **Discretely Presented Component Units**

Discrete presentation of component units is used to include the financial information of entities that do not qualify to be blended with the funds and account groups of the PG. The following are the Government's discrete presentation columns:

- *Public University Funds* – used to account for the activities of the University. Accordingly, the public university funds are an aggregate of the following funds: current funds – restricted and unrestricted; loan funds; endowment and similar funds; plant funds; and agency funds.
- *Public Benefit Corporations* – used to account for the financial activities of the Government's discretely presented component units excluding public university funds. The financial statements of these component units are presented in accordance with the appropriate accounting methods as discussed in note 1C.

C. Basis of Accounting

The basis of accounting determines when the Government recognizes revenue and expenditures or expenses and related assets and liabilities.

The modified accrual basis of accounting is followed by governmental fund types, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenue is recorded when it becomes measurable and available (that is, earned and collected or expected to be collected within the next 120 days) to pay liabilities of the current period. Tax revenue, net of estimated overpayments (refunds), is recorded by the Government as taxpayers earn income (income and unemployment) as sales are made (consumption and use taxes) and as cash is received (miscellaneous taxes).

In applying the susceptible to accrual concept to intergovernmental revenue, there are essentially two types of revenue. For the majority of grants, moneys must be expended by the Government on the specific purpose or project before any amounts will be reimbursed. Revenue is, therefore, recognized as expenditures are incurred. For the other revenue, moneys are virtually unrestricted and are generally revocable only for failure to comply with prescribed compliance requirements. These

(Continued)

resources are reflected as revenue at the time of receipt or earlier if the susceptible to accrual criteria is met.

In December 1998, GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transaction*, effective for financial statements for periods after June 15, 2000, which the Government adopted on October 1, 2000. This statement establishes accounting and reporting standards for nonexchange transactions involving cash and financial or capital resources (such as, most taxes, grants, and private donations). In a nonexchange transaction, a government gives (or receives) value without directly receiving (or giving) equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The statement groups nonexchange transactions of governments into four classes, based on their principal characteristics: (i) derived tax revenue; (ii) imposed nonexchange revenue; (iii) government-mandated nonexchange transactions; and (iv) voluntary nonexchange transactions.

The adoption of this statement did not alter significantly the basis of accounting used by the Government for the recognition of revenue and expenditures and related assets and liabilities, as described above, except for the recognition of taxes receivable in the amount of $44 million and a corresponding deferred revenue for the same amount. This receivable is based on taxes on income earned by taxpayers and taxes on real property located in the U.S. Virgin Islands in periods prior to September 30, 2001, estimated to be collectible but not currently available.

GASB No. 33 also requires governments to recognize capital contributions to proprietary funds and to other governmental entities that use proprietary fund accounting as revenue, not contributed capital. However, governments should not restate contributed capital arising from periods prior to implementation of this statement until GASB issues one or more statements requiring restatement of those prior-period balances. The Government proprietary funds and the discretely presented component units that use proprietary fund accounting have adopted these provisions of GASB No. 33. The effects of the adoption of this statement during the year ended September 30, 2001 were to record contributed capital amounting to $10.2 million as revenue instead of presenting such amount as an addition to contributed capital.

Revenue from taxpayer-assessed taxes, such as income taxes, net of estimated refunds, is recognized in governmental funds in the accounting period in which it becomes both measurable and available to finance expenditures of the fiscal period.

Expenditures and related liabilities are recorded in the accounting period in which the liability is incurred, except for: (i) principal payment and interest on long-term obligations, which are recorded when due; and (ii) compensated absences, retroactive union arbitration salary increase, federal funds cost disallowances, and amounts subject to legal claims and judgments under litigation that are recorded in the general long-term debt account group.

The Government reports deferred revenue on its combined balance sheet. Deferred revenue arises when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received before the Government has a legal claim to them, as when grant moneys are received prior to incurring the qualifying expenditures. Revenue is recognized in subsequent periods, when the revenue recognition criteria are met, or when the Government has a legal claim to the resources.

The accrual basis of accounting is used by proprietary fund types and the pension trust fund. Under the accrual basis, revenue is recognized when earned and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. Employee and employer contributions recorded in the pension trust fund are recognized as revenue in the period in which employee services are performed. The accrual basis is also used by the public university funds, except that depreciation of fixed assets is not recorded as permitted for governmental colleges and universities.

GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, states that proprietary funds should apply all applicable GASB and Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989. In addition, proprietary funds may also elect to apply FASB pronouncements issued subsequent to November 30, 1989. The PG and most blended component units have elected not to follow FASB pronouncements issued subsequent to November 30, 1989 for its proprietary fund types. VIPA has elected to follow FASB pronouncements issued subsequent to November 30, 1989.

The public benefit corporations follow GAAP as issued by GASB and FASB and, as applicable to each component unit based on the nature of their operations.

D. Statutory (Budgetary) Accounting

The Government's budget (General Fund only) is adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. Revenue is generally recognized when cash is received, net of tax refunds claimed by taxpayers as of year-end.

Expenditures are generally recorded when they are encumbered or otherwise processed for payment. Encumbrances lapse at the end of the subsequent fiscal year.

Under the statutory basis of accounting, the Government uses encumbrance accounting to record the full amount of purchase orders, contracts, and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

The combined statement of revenue and expenditures – budget and actual – general fund – non-GAAP budgetary basis presents the information for which there is an annual legally adopted budget, as required by GAAP. Budget revenue represents official estimates while expenditures represent amounts originally adopted and amended. Actual amounts are presented on the budgetary basis (see note 3B for a reconciliation of the combined statement of revenue and expenditures – budget and actual – general fund – non-GAAP budgetary basis with the combined statement of revenue, expenditures, and changes in fund balances, for the general fund).

(Continued)

E. *Cash and Cash Equivalents*

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

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

F. *Investments*

Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. government and agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. Investments are reported at fair value.

Investments in marketable equity securities are carried at quoted market values. Realized gains and losses on securities are determined by the average cost method. Investment in real estate is carried at fair value. Management has determined the fair value in the investment in real state based upon an appraisal and a capitalization of net rental income. Member loans are valued at the outstanding loan principal balance less an allowance for estimated loan losses. Management believes that, based upon interest rate and risk factors, this valuation approximates fair value.

G. *Receivables*

Taxes receivable in the general fund represent amounts owed by taxpayers for individual and corporate income taxes, gross receipt taxes, and real property taxes. A portion of these income tax receivables are recognized as revenue when they become measurable and available based on actual collections during the 120 days following the fiscal year-end related to tax returns due before year-end. Taxes receivable also include amounts owed by taxpayers on income earned in periods prior to September 30, 2001, estimated to be collectible but not currently available, as a result of the adoption of GASB No. 33.

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

Federal government receivables represent amounts owed to the Government for reimbursement of expenditures incurred pursuant to federally funded programs.

The accounts receivable from nongovernmental customers of the discretely presented public benefit corporations are net of estimated uncollectible amounts. These receivables arise primarily from service charges to users. Accounts receivable from the PG and other component units that arise from service charges do not have significant allowances for uncollectible accounts.

(Continued)

H. *Inventories*

In governmental fund types, the costs of inventories are recorded as expenditures when purchased. The proprietary fund types, public university funds, and the discretely presented public benefit corporations recognize an asset when the inventory is purchased and an expense when it is consumed. Inventories in proprietary fund types are primarily valued at the lower of cost or market using the first-in, first-out method.

I. *Restricted Assets*

Restricted assets in the PG, public university funds, and in the public benefit corporations are set aside primarily for the payment of bonds, notes, construction funds, and other specific purposes (see note 7).

J. *Fixed Assets*

For governmental fund types, general fixed asset acquisitions are recorded as expenditures in the acquiring fund. There are no subsidiary records to support the balance in the general fixed assets account group and, accordingly, it is not presented in the combined balance sheet.

Fixed assets of the proprietary fund types and pension trust fund are stated at cost. Contributed fixed assets are recorded at estimated fair market value at the time received. Depreciation is provided using the straight-line method over estimated useful lives of the assets. Fixed assets of the public university funds are stated at cost or, if donated, at fair value at the date of donation. Interest cost is capitalized during the construction period. Depreciation on fixed assets is not recorded as permitted for governmental colleges and universities.

The fixed assets of the public benefit corporations were recorded in accordance with the applicable GASB and FASB statements. Interest cost is capitalized during the construction period. Depreciation has been recorded when required by these standards based on the types of assets, use, and estimated useful lives of the respective assets and on the nature of each of the component unit's operations. Depreciation on assets acquired with contributed funds is charged to operations and closed to the contributed capital account.

K. *Tax Refunds Payable*

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

L. *Long-Term Debt*

The liabilities reported in the general long-term debt account group include the Government's general obligation bonds and notes and other long-term liabilities including compensated absences, retroactive union arbitration salary increase, federal funds cost disallowances, and amounts subject to legal claims and judgments under litigation. Long-term obligations financed by proprietary fund

(Continued)

types, pension trust fund, public university funds, and public benefit corporations' liabilities are reported in those funds or in the discretely presented component units columns.

M. Reservations of Fund Balance

Reservations of fund balance represent portions of fund balances that are legally segregated for a specific future use or are not appropriated for expenditures. The Government has the following reservations of fund balances:

- *Encumbrances* – Represent future expenditures under purchase orders and other commitments. These committed amounts generally will become liabilities in future periods as the goods are received or the services are rendered.
- *Debt Service* – Represents net assets available to finance future debt service payments.
- *Employees' Pension Benefits* – Represent the public employees' retirement system net assets available to finance future benefit obligations.
- *Unemployment Benefits* – Represent net assets available to fund future unemployment benefits payments.
- *Capital Projects* – Represent net assets available to finance future capital acquisition or construction projects.
- *Other Specified Purposes* – Represent the reservation of moneys set aside for long-term receivables that are not considered current financing resources, long-term assets, endowment, and amounts available to fund various fiduciary arrangements.

N. Bond Premiums, Discounts, and Issuance Cost

For governmental fund types, bond premiums and discounts, as well as issuance costs, are recognized in the period when the related long-term debt is issued. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance cost, whether or not withheld from the actual net proceeds received, is reported as debt service expenditures. For proprietary fund types, public university funds, and public benefit corporations, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the lives of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

O. Postemployment Benefits

In addition to the pension benefits in note 11, the Government provides postretirement health care benefits, in accordance with the V.I. Code to all employees who retire from the government on or after attaining age 55 with at least 30 years of service except for policemen and firemen who can retire with at least 15 years of service. Currently 5,137 retirees meet those eligibility requirements. Health care benefits are provided through insurance companies whose premiums are paid by the retiree and the Government. The Government contributes two-thirds of the health care benefits premiums. The Government recognizes such expenditures upon payment. During the year ended September 30, 2001 the cost of providing health care benefits premiums amounted to approximately $9 million.

(Continued)

P. ***Compensated Absences***

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement. This vacation policy does not apply to professional educational personnel of the V.I. Department of Education, who are entitled to pay for school vacations. Upon retirement, an employee receives compensation for unpaid vacation leave at the employee's base rate pay. The accrued compensated absences of the PG amounting to $49.5 million at September 30, 2001, including related benefits are presented in the general long-term debt account group because these will not be funded with available expendable financial resources at September 30, 2001.

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

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

Q. ***Interfund and Intra-entity Transactions***

The Government has the following types of transactions among funds:

- *Operating Transfers* – Legally required transfers that are reported when incurred as "operating transfers from" by the recipient fund, and as "operating transfers to" by the disbursing fund.
- *Interfund Payments (Quasi-external Transactions)* – Charges or collections for services rendered by one fund to another that are recorded as revenue of the recipient fund and as expenditures or expenses of the disbursing fund.
- *Intra-entity Transactions* – These are transactions between the PG and its component units, and among the component units. Transfers between the PG and its blended component units are reported as interfund transfers, except for transfers within the same fund type. Similarly, receivables and payables between the PG and its blended component units are reported as amounts due to and due from other funds. Balances and transfers between the PG and discretely presented component units (and among those component units) are reported separately.
- *Residual Equity Transfers* – These are nonrecurring or nonroutine transfers of equity between funds.

R. ***Lottery Revenue and Prizes***

The revenue, expenses, and prizes awarded by the Virgin Islands Lottery are reported within the enterprise funds and are recognized as drawings are held. Moneys collected prior to September 30 for tickets related to drawings to be conducted subsequent to September 30 are reported as deferred revenue. Unpaid prizes awarded as of September 30 are reported as a fund liability.

S. ***Public University Funds***

Financial activities of the University are reported in the public university funds. Such funds are discretely presented in a separate column in the general purpose financial statements and represent the combination of the following funds of the University:

- *Current Funds* – Account for resources that may be used for any purpose in carrying out the primary objectives of the University. Resources restricted by donors or other outside agency for specific operating purposes are accounted for as a restricted current fund.
- *Loan Funds* – Account for resources limited by the terms of the donors for the purpose of making loans to students, faculty, or staff of the University.
- *Endowment and Similar Funds* – Account for endowment and quasi-endowment transactions. These funds are subject to restrictions requiring that the principal be invested and the income be used as specified by the donor or the board of trustees of the University.
- *Plant Funds* – Account for resources that have been or are to be invested in fixed assets and funds reserved to retire debt incurred to finance the acquisition of such fixed assets.
- *Agency Funds* – Account for resources held by the University as custodian or agent for others.
- *The Combined Statement of Current Funds Revenue, Expenditures, and Other Changes* – Public University Funds are part of the statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income.

T. ***Risk Management***

With some exceptions, the Government does not carry general casualty or liability insurance coverage on its properties or the acts of its employees, medical malpractice, or automobile insurance relying instead on self-insurance and/or statutory liability limitations. However, as a result of an agreement with the Federal Emergency Management Agency (FEMA), with respect to properties and funds, the Government of the Virgin Islands currently maintains a Property Insurance Program covering a total schedule for real and personal property approaching $875 million each, providing for all risk coverage (as defined by the policy) with a loss limit of $100 million for each and every occurrence but in the annual aggregate in respect to earthquake. With a further per occurrence sub-limit of $45 million for each and every occurrence in respect to windstorm and $45 million in the annual aggregate in respect to flood. The Government's enterprise fund provides workmen's compensation for public and private individuals.

(Continued)

U. Future Adoption of Accounting Requirements

GASB has issued the following statements that the Government or its component units have not yet adopted:

Statement number		Adoption required in fiscal year
34	Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments	2002
35	Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities – an amendment of GASB No. 34	2002
37	Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus – an amendment of GASB No. 21 and No. 24	2002
38	Certain Financial Statement Note Disclosures	2002
39	Determining Whether Certain Organizations are Component Units	2003

The impact of these statements has not yet been determined. The Government is analyzing the impact and establishing an implementation plan for the statements that require adoption in 2002.

V. Reclassifications

The presentation of the separately issued financial statements of certain component units included within the special revenue funds, debt service funds, capital projects funds, enterprise funds, pension trust fund, agency funds, public university funds, and public benefit corporations column have been reclassified to conform to the account classifications used by the Government in the 2001 general purpose financial statements.

W. Use of Estimates

Management of the Government has made certain estimates and assumptions relating to the reporting of assets and liabilities and disclosure of contingent assets and liabilities to prepare these general purpose financial statements in conformity with GAAP. Actual results could differ from those estimates.

X. Total Columns (Memorandum Only)

Total columns on the combined general purpose financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present consolidated financial position, results of operations, or cash flows in conformity with GAAP. Such data is not comparable to a consolidation since interfund eliminations have not been made.

(2) Component Units

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

- University of the Virgin Islands (public university funds)
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Public Television System
- Magens Bay Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- Virgin Islands Housing Authority
- Economic Development Authority
- Virgin Islands Housing Finance Authority

Condensed financial information of all component units discretely presented under the public benefit corporations column is as follows (expressed in thousands):

		Virgin Islands Water and Power Authority				
Balance sheet	**Virgin Islands Port Authority**	**Electric system**	**Water system**	**Virgin Islands Housing Authority**	**Other entities**	**Total public benefit corporations**
Assets						
Current assets	$ 28,491	63,946	19,600	21,038	40,426	173,501
Due from PG	782	—	—	168	1,032	1,982
Due from federal government	772	—	—	6,192	407	7,371
Restricted assets	11,728	19,659	8,360	7,793	8,566	56,106
Fixed assets, net	216,961	160,696	53,560	93,390	127,136	651,743
Other noncurrent assets	229	2,277	1,035	4	16	3,561
Total	$ 258,963	246,578	82,555	128,585	177,583	894,264

Balance sheet		Virgin Islands Port Authority	Virgin Islands Water and Power Authority: Electric system	Virgin Islands Water and Power Authority: Water system	Virgin Islands Housing Authority	Other entities	Total public benefit corporations
Liabilities and Fund Equity							
Current liabilities	$	11,580	56,490	8,065	14,653	27,898	118,686
Due to PG		—	—	—	—	2,498	2,498
Due to federal government		—	5,300	—	1,531	1,083	7,914
Bonds payable		13,486	99,349	39,173	—	—	152,008
Note payable		—	—	—	1,297	—	1,297
Other noncurrent liabilities		—	—	—	—	9,537	9,537
Total liabilities		25,066	161,139	47,238	17,481	41,016	291,940
Fund equity		233,897	85,439	35,317	111,104	136,567	602,324
Total	$	258,963	246,578	82,555	128,585	177,583	894,264

Statement of operations		Virgin Islands Port Authority	Virgin Islands Water and Power Authority: Electric system	Virgin Islands Water and Power Authority: Water system	Virgin Islands Housing Authority	Other entities	Total public benefit corporations
Operating revenue	$	38,621	115,957	28,906	5,631	58,577	247,69
Operating expenses		(41,293)	(104,852)	(24,984)	(36,011)	(117,032)	(324,172
Operating income (loss)		(2,672)	11,105	3,922	(30,380)	(58,455)	(76,480
Nonoperating revenue (expenses), net		6,493	2,335	(1,017)	31,611	4,077	43,49
Income (loss) before operating transfers		3,821	13,440	2,905	1,231	(54,378)	(32,981)
Operating transfers from PG		—	—	—	650	41,652	42,302
Net income (loss)		3,821	13,440	2,905	1,881	(12,726)	9,321
Fund equity at beginning of year (as restated)		230,076	71,999	32,412	109,223	149,293	593,003
Fund equity at end of year	$	233,897	85,439	35,317	111,104	136,567	602,324

(3) Stewardship, Compliance, and Accountability

A. *Budgetary Process and Control*

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual executive budget no later than May 30. The annual executive budget is prepared essentially on a cash basis by the V.I. Office of Management and Budget (OMB) working in conjunction with other Government departments and agencies. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be applicable, are automatically deemed reappropriated item by item. The annual executive budget, which includes those funds of the Government subject to appropriation pursuant to law, is composed of all proposed expenditures and estimated revenue for the Government. The Legislature enacts the annual executive budget through passage of appropriations for each department. The Legislature may add, change, or delete any items in the annual executive budget proposed by the Governor. Upon passage by the Legislature, the annual executive budget is submitted to the Governor, who may sign it, allow it to become law without his signature, or who may veto the budget partially or in its entirety and return it to the Legislature with his objections. A gubernatorial veto can be overridden only by a two-third majority of all members of the Legislature. The Legislature is obligated by law to pass a final annual executive budget no later than September 30, the last day of the fiscal year. Supplemental budgetary appropriation bills that are signed into law may be created during the year with identification of a specific revenue source to finance them. In August 1999, the Legislature enacted the Financial Accountability Act (Act No. 6289). The purpose of the Financial Accountability Act is to require by law, that the budget of the Government be balanced each year, and the appropriations in each fiscal year not exceed "verifiable" revenue received. This act will be effective commencing in fiscal year 2001-2002.

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

Budgetary control is exercised at the department level through an allotment process. Encumbrances and expenditures cannot exceed total allotted amounts. If a line item budget is adopted, department heads may request transfers of appropriations within the department. Appropriation transfers between departments and supplemental appropriations require executive and legislative branch approval. If a lump-sum budget is adopted, transfers of appropriations within the departments are approved by OMB only. Unencumbered and unexpended appropriations, not designated, lapse at fiscal year-end. Also, encumbrances are established at fiscal year-end to pay certain expenditures for salaries and wages, travel, and utility costs payable against current year appropriation authority but to be expended in the subsequent year. In fiscal year 2001, the budget was approved on a lump-sum basis (pursuant to Act No. 6388 of December 21, 2000).

Controls over spending in special revenue funds not subject to appropriation are maintained at the V.I. Department of Finance by use of budgets and available resources (revenue). The Government makes appropriations to authorize expenditures for various capital projects. Budgets for capital projects normally remain available until completion of the project unless modified or rescinded.

B. *Budget/GAAP Reconciliation*

The following schedule presents comparisons of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP (see note 1D), a reconciliation of timing and entity difference in the excess of revenue and other financing sources over expenditures and other financing uses for the year ended September 30, 2001 is presented below (expressed in thousands):

Excess of revenue and other financing sources over expenditures and other financing uses – non-GAAP budgetary basis	$	87,297
Timing difference – change in encumbrances		16,127
Entity difference – excess of revenue and other financing sources under expenditures and other financing uses – activities with budgets not legally adopted		893
Excess of revenue and other financing sources over expenditures and other financing uses – GAAP basis	$	104,317

C. *Deficit Fund Equity*

As of September 30, 2001, fund deficits exceeding 10% of the total assets of its respective fund type were also reported in the following funds (expressed in thousands):

Special revenue funds:		
Paternity and Child Support	$	11,829
Pharmaceutical Insurance		10,110
Capital project fund:		
Vocational School Building Fund		11,566
Enterprise funds:		
Public Transit Fund		9,520
Reciprocal Insurance Fund		7,818

(4) Cash and Investments

By law, banks or trust companies designated as depository of public funds of the Government and its various agencies, authorities, and instrumentalities, are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited.

At September 30, 2001, the PG and the discretely presented component units carrying amounts of cash and cash equivalents were covered by federal deposit insurance, corporate surety bonds, or by collateral held by the Government.

Legally authorized investments vary by fund, but generally include obligations of the United States or its states, the Commonwealth of Puerto Rico, the Government of the U.S. Virgin Islands or of any agency thereof; common and preferred stocks of any U.S. corporation; common and preferred stocks of any foreign corporation listed in any internationally recognized security exchange; certain bonds or other indebtedness issued by foreign governments or foreign corporations; certificates of deposit; collateralized repurchase agreements; corporate bonds; and certain other investments. Specific bond indentures also provide investment requirements.

For the fiscal year ended September 30, 2001, the PG and its discretely presented component units have classified their investments into three risk categories. Category 1 includes investments that were insured or registered or for which the securities were held by a government entity (that is, PG or discretely presented component unit) or its agent in the entity's name and investments for which the entity has safekeeping responsibilities but no equity or ownership interest or control. Category 2 includes uninsured and unregistered investments for which the securities were held by the counterparty's trust department or agent in a government entity's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in a government entity's name. The investments of the PG and its discretely presented component units by risk category at September 30, 2001 were as follows (expressed in thousands):

(Continued)

Primary Government

	Category 1	Category 2	Category 3	Reported amount
U.S. government and agency securities	$ 281,330	—	—	$ 281,330
Common stock – U.S.	436,579	—	—	436,579
Common stock – foreign	48,500	—	—	48,500
Corporate bonds – U.S.	128,746	—	—	128,746
Corporate bonds – foreign	81,654	—	—	81,654
Commercial paper	34,239	—	—	34,239
Certificates of deposit	91,855	—	—	91,855
Collateralized mortgage obligations	38,325	—	—	38,325
Money market fund	16,871	—	—	16,871
	$ 1,158,099	—	—	1,158,099
Investments not categorized:				
Investments held by broker – dealers under security loans:				
U.S. government and agency securities				131,323
Corporate bonds – U.S.				13,945
Common stock – U.S.				15,709
Common stock – foreign				5,893
Securities lending short-term collateral investment pool				3,789
Mutual funds				18,831
Pooled investments				116,256
Real estate				33,000
Total investments				$ 1,496,845

(Continued)

Public University Funds

		Category			Reported
		1	2	3	amount
U.S. government and agency securities	$	1,929	—	—	1,929
Common stock		1,444	—	—	1,444
Corporate bonds					
Mortgage-backed securities		2,495	—	—	2,495
	$	5,868	—	—	5,868
Investments not subject to categorization:					
Mutual funds		14,668	—	—	14,668
Total investments				$	20,536

Public Benefit Corporations

		Category			Reported
		1	2	3	amount
U.S. government and agency securities	$	1,832	—	—	1,832
Certificates of deposit		5,283	—	—	5,283
Money market accounts		9,203	—	—	9,203
Investment in contract		2,234	—	—	2,234
Pooled investments		17,151	—	—	17,151
Total investments	$	35,703	—	—	35,703

GERS investments in marketable securities are administered by several professional investment managers and are held in trust by a commercial bank in the name of GERS. The investments in marketable securities generated interest and dividend income of $37.8 million. During the year ended September 30, 2001, GERS investments including gains and losses on investments bought and sold, as well as held during the year (depreciated) appreciated in value as follows (expressed in thousands):

U.S. government and government-guaranteed obligations	$	7,011
Corporate bonds – U.S.		7,925
Corporate bonds – foreign		5,350
Common stock – U.S.		967
Common stock – foreign		(89,828)
Collateralized debt obligations		(28,422)
Mutual funds		(16,278)
Net depreciation of fair value of investments	$	(113,275)

GERS participates in a securities lending program originally administered by The Chase Manhattan Bank, N.A. (the Custodian) and presently by State Street Bank and Trust. Loans are generally terminable on demand. The system may be exposed to off-balance sheet risk in the event a borrower is unable to meet its contractual obligation. The Custodian maintains collateral at a minimum of 102% of the market value of the security for domestic borrowers and 105% for foreign borrowers. The securities are marked-to-market, and settlements are made with the borrowers on a daily basis by the Custodian. At September 30, 2001 approximately $166 million of securities were on loan.

(5) Receivables

Taxes receivable at September 30, 2001 consist of the following (expressed in thousands):

Income	$	41,051
Real property		17,349
Gross receipts		5,425
	$	63,825

The Naval Appropriations Act of 1922 and Section 28(a) of the Revised Organic Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code of 1986, as amended. Income taxes are levied each year to every corporation, partnership, individual, estate, or trust that meets the filing requirements of the U.S Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies their U.S. income tax obligations by filing their return with, and paying income taxes to, the Government, even if their income is from non-U.S. Virgin Islands sources. A nonresident of the U.S. Virgin Islands pays income taxes on their U.S. Virgin Islands source income to the Government.

Corporate income taxes are due by the 15th day of the third month following the close of the fiscal year, and become delinquent if not paid on or before three months after the due date.

Partnerships, personal, estate, and trust income taxes are due by April 15 of the following year for which the income tax was levied. If an extension is filed, the last payment is due by August 15.

Income tax receivable is based on taxes on income earned by taxpayers and taxes on real property located in the U.S. Virgin Islands in periods prior to September 30, 2001, estimated to be collectible.

Property taxes are levied each calendar year on all taxable real property located in the U.S. Virgin Islands. The revenue is recognized in the general fund in the fiscal period for which the property tax was levied, provided the tax is collected within 60 days subsequent to fiscal year-end, unless the facts justify a period greater than 60 days.

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

Property taxes are to be levied by May 15 of each year in the name of the record owner on January 15 of the same year. The taxes are due on September 30 and become delinquent if not paid by October 30. The taxes assessed become an enforceable first lien against the real property as of the levy date.

Property tax receivable is based on real property located in the U.S. Virgin Islands in periods prior to September 30, 2001, estimated to be collectible.

For businesses with gross receipts of less than $150,000 per annum, gross receipt taxes are levied on a monthly basis, based on a 4% of gross receipts in excess of $5,000. Businesses with annual gross receipts of more than $150,000, lose the $5,000 monthly exemption. The gross receipts tax is due within 30 calendar days following the last day of the calendar month collected.

Loans and advances receivable at September 30, 2001 consist of the following (expressed in thousands):

		Primary government		Discretely presented components units	
		Enterprise funds	Pension trust fund	Public university funds	Public benefit corporations
Mortgage loans	$	9,637	28,683	—	—
Personal loans		—	69,547	—	—
Student loans		—	—	700	—
Other loans and advances		962	809	—	1,823
		10,599	99,039	700	1,823
Less allowance for uncollectible accounts		(80)	(3,000)	(167)	—
Loans and advances, net	$	10,519	96,039	533	1,823

(6) Interfund Transactions

A. Operating Transfers

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfers from the general fund to other funds include a $3.6 million transfer to the Emergency Mollases Fund ("special revenue fund"), $750,000 to the Casino Control Revolving Fund ("special revenue fund"), $250,000 to the Elected Governors Retirement Fund ("expendable trust fund"), $175,000 to the Judges Pension Fund ("expendable trust fund"), and $150,000 to the Claims Fund ("special revenue fund"). Operating transfers from other funds to the general fund consist primarily of $77.5 million transferred from the debt service fund, $39.8 million from the special revenue funds, $1.9 million transferred from the Bond Proceeds Fund ("capital projects fund"), $847,000 from the Caribbean Basin Initiative Fund ("capital projects fund") and $512,000 from the PFA Blended Capital Project Fund ("capital projects fund"). Operating transfers into the special revenue fund consisted of $2 million from the PFA Blended Capital Projects Fund ("capital projects fund") and $1.9 million from the debt service fund.

B. Due From/To Other Funds

Each year the general fund appropriates funds to certain component units to subsidize operations. The most significant transfers made to component units include $23 million transferred to the University ("public university fund") and $37.6 million transferred to the VIGHHFC.

The following table summarizes the due from/to at September 30, 2001 (expressed in thousands):

	Primary government	Public university funds	Public benefit corporations	Total
Due from:				
Other funds	$ 32,140	—	—	32,140
Primary government	—	2,796	1,982	4,778
Public benefit corporations	2,498	—	—	2,498
Total	$ 34,638	2,796	1,982	39,416
Due to:				
Other funds	$ 32,140	—	—	32,140
Primary government	—	—	2,498	2,498

	Primary government	Public university funds	Public benefit corporations	Total
Public university funds	2,796	—	—	2,796
Public benefit corporations	1,982	—	—	1,982
Total	$ 36,918	—	2,498	39,416

The most significant due from/to other funds include the amounts of $3.3 million and $3 million, due from the general fund to the Emergency Molasses Fund ("special revenue fund") and to GERS, a blended component unit, respectively.

Other balances composing the due from/to other funds not mentioned above, include $3.5 million from the special revenue fund to the general fund and $2.7 million, related to PFA, from the capital projects fund to the general fund. In addition, $4.4 million from the general fund to the Virgin Islands Lottery, ("enterprise fund"), consisting primarily of 8% of the total lottery revenue that is required to be transferred to the general fund. The remaining balances of due from/to other funds arise primarily from advances made by the trust and agency funds to cover overdrafts in the Government's pooled cash accounts in the special revenue fund.

The due to PG balance is composed of $2.5 million from VIGHHFC. The due from PG is primarily composed of $2.8 million due to the University, a discretely presented component units.

The interfund loan balance is primarily composed of $5 million and $6.5 million due from the general fund to the Road Fund and the St. John Capital Improvement Fund ("capital projects fund"), respectively. The amounts relate to advances made to the general fund in 1995 with the purpose of meeting recurring Government payroll requirements, pursuant to Act. No. 6068.

(7) Restricted Assets

A. *Primary Government*

Restricted assets of the PG include cash and cash equivalents for debt service and sinking fund requirements.

B. ***Public University Funds***

Restricted assets of public university funds include cash and cash equivalents, investments, and receivables in the following funds (expressed in thousands):

Restricted current funds	$	3,417
Endowment and similar funds		24,700
Plant funds – retirement of indebtedness		3,495
Total	$	31,612

C. ***Public Benefit Corporations***

Restricted assets of public benefit corporations include cash, cash equivalents, and investments for the following purposes (expressed in thousands):

Cash and Cash Equivalents		
Debt service and sinking fund requirements	$	19,256
Construction funds		3,523
Renewal and replacement funds		815
HUD project funds		7,793
Other		2,988
Total cash and cash equivalents		34,375
Investments		
Debt service and sinking fund requirements		2,659
Construction funds		14,644
Renewal and replacements funds		
Other		4,066
Total investments		21,369
Other		
Accrued interest receivable		362
Total restricted assets of public benefit corporations	$	56,106

(Continued)

(8) Fixed Assets

A. Primary Government

The accounting records maintained by the V.I. Department of Finance has no subsidiary records of general fixed assets, thus the required disclosure cannot be provided.

Fixed assets for the enterprise funds as of September 30, 2001 are as follows (expressed in thousands):

Land	$	5,521
Buildings		32,535
Equipment		2,532
Construction in progress		527
Total		41,115
Less accumulated depreciation		(6,632)
Fixed assets, net	$	34,483

The fixed assets of the pension trust fund as of September 30, 2001 are summarized as follows (expressed in thousands):

Land	$	2,245
Buildings and improvements		10,947
Total		13,192
Less accumulated depreciation and amortization		(943)
Fixed assets, net	$	12,249

(Continued)

B. *Discretely Presented Component Units*

Fixed assets for the discretely presented component units as of September 30, 2001 are as follows (expressed in thousands):

		Public university funds	Public benefit corporations
Land	$	5,449	29,817
Buildings and improvements		61,642	757,520
Airport and marine terminal facilities		84	294,304
Equipment		23,050	54,943
Construction in progress		—	60,848
Other assets		2,573	56,355
Total		92,798	1,253,787
Less accumulated depreciation and amortization		—	(602,044)
Fixed assets, net	$	92,798	651,743

No depreciation is recorded for the public university funds as permitted for governmental colleges and universities.

(9) Bonds and Notes Payable

A. *Primary Government*

The following schedule shows the changes in bonds and notes payable in the general long-term debt account group for the year ended September 30, 2001 (expressed in thousands):

		Balance at October 1, 2000	Debt issued	Debt paid	Increase (decrease)	Balance at September 30, 2001
Bonds payable	$	851,935	—	26,420	—	825,515
Notes payable		134,225	—	2,007	—	132,218
Other long-term liabilities		376,934	—	—	89,224	466,158

i. Debt Margin

Pursuant to Section 8(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to Section 8(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness be in excess of 10% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to issue bonds or other obligations in anticipation of the matching funds to be received from the federal government pursuant to 26 U.S.C. Section 7652(b)(3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. Section 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issues. The PFA is authorized to issue bonds for the purpose of financing any project or purpose authorized by the Legislature. Given that the PFA's powers to issue bonds are derived from Section 8(b) of the Revised Organic Act, the bonds issued by the PFA are subject to the limitations of said Section 8(b). On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds. As used in Title 2 of the V.I. Code Section 256, the term "debt" means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term "debt" does not include that portion of principal or interest on bonds that is not yet due and payable.

ii. Bonds Payable

Bonds payable outstanding at September 30, 2001 are comprised of the following (expressed in thousands):

1998 Series A, B, C, D, and E revenue and refunding bonds, due from 2001 to 2022, interest at 5.50% to 7.11%	$	511,340
1999 Project Revenue Bonds, due at 2005 interest at 6.25%		9,915
1999 Series A General Obligation Bonds, due at 2007 and 2010, interest at 6.50%		7,990
1999 Series A Revenue Bonds, due from 2000 to 2029, interest at 4.20% to 6.40%		296,270
Bonds payable as of September 30, 2001	$	825,515

On May 1, 1998 PFA issued the revenue and refunding bonds series 1998 A, B, C, D, and E amounting to $541.8 million, secured by general obligation notes issued by the Government. These bonds were issued for the purpose of, among other things, advance refund previously issued bonds in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40 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. At September 30, 2001 $231 million of the above-mentioned defeased bonds were outstanding.

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, $177 million 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 Government's general purpose financial statements.

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 Bond Anticipation Note, issued in February 1998. The remaining balance of the 1998 Series D Bonds amounting to approximately $12 million was primarily provided to the Government for additional working capital. The net proceeds of the 1998 Series E Bonds were primarily designated to fund the construction of certain capital projects.

The Secretary of the U.S. 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 revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term "matching fund revenue" is used to denote these payments. The Government has pledged the matching fund revenue, as described above, to the timely payment of principal and interest on the 1998 Series A, B, C, D, and E Bonds. Thus, 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.

Estimated prepayments of matching fund revenue 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 U.S. Department of Treasury during such year. Prepayments of matching fund are recorded as a deferred revenue in the accompanying combined balance sheet all fund types, account group and discretely presented component units

(Continued)

and reversed against revenue in the following year. The adjustments for actual collections made to the estimated prepayments are recorded in the year determined.

In November 1999, the U.S. Congress approved an increase in the rate of federal excise taxes on rum transferred to the Government from $10.50 to $13.25 per proof gallon. The increase was retroactive to July 1999 and will be effective through December 31, 2001.

In March 2002, President Bush signed the Job Creation and Worker Assistance Act of 2002. Included in the Act is legislation to maintain the rum excise tax rebate of $13.25 per proof gallon and to extend this rate until December 31, 2003 retroactive to December 31, 2001. Excise rum tax rebates are pledged to support debt service cost of the 1998 Revenue Bonds of the Government.

Interest on the revenue and refunding bonds series 1998 A, B, C, D, and E bonds is payable semiannually 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 due on October 1 and interest payments due on October 1 and April 1 are funded by the matching fund revenue and deposited into the debt service reserve accounts.

On April 13, 1999 a loan agreement was made between and among the Government, the PFA, International Business Machine Corporation (IBM), Banco Popular de Puerto Rico, and U.S. Trust Company of New York (Y2K Loan). The purpose of this loan was to finance certain costs of compliance by the Government with Year 2000 computer systems issues. The loan was evidenced by the Government's issuance of General Obligation Bonds Series 1999 amounting to $18 million. Principal and interest are payable semiannually on January 1 and July 1. On July 9, 2001 the Government paid the outstanding IBM portion of the bonds amounting to $7.4 million.

The Bonds are secured by the full faith and credit and taxing power of the Government, including a pledge on annual real property tax revenue from its taxation of the Hovensa Oil Refinery (the Refinery) which revenue is deposited in the Hovensa Property Tax Fund and a negative pledge of all franchise taxes on Foreign Sales Corporation collected by the Government (Franchise Tax Revenue). Pursuant to the Hovensa Oil Contract, the Refinery agreed to pay $12 million annually of real property taxes on the refinery properties. Foreign sales corporations qualified to do business in the Virgin Islands must pay a franchise tax of $1.50 for each thousand dollars of capital stock issued (Franchise Tax).

On April 13, 1999 PFA also issued Project Revenue Bonds (the 1999 Project Revenue Bonds), amounting to $13.5 million on behalf of the Government, to finance a portion of the Government's Year 2000 (Y2K) compliance efforts, including the costs related to transportation, installation, and related hardware, software, and consulting services and related expenses. The 1999 Project Revenue Bonds are secured by lease payments made by the Government to PFA pursuant to a municipal lease purchase agreement, dated April 13, 1999. Such lease payments shall be funded by appropriation from the real property taxes deposited in the Hovensa Property Tax Fund and all franchise taxes on a subordinated basis and subject to any superior rights of the Series 1999 A General Obligation Bonds. The 1999 Project Revenue Bonds mature on January 1, 2005 with interest payable semiannually on January 1 and July 1.

On November 16, 1999 PFA issued the 1999 Series A Bonds amounting to $299.9 million. These bonds were issued to: (i) pay certain working capital obligation of the Government; (ii) repay the Government outstanding tax and revenue anticipation notes; (iii) fund the Series debt service accounts; and (iv) pay certain cost of issuing the bonds.

The Government pledged gross receipt taxes for fund deposit for the timely payment of the principal and interest on the 1999 Series Bonds. Interest on the 1999 Series A Bonds is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. The principal and interest payments on October 1 and the April 1 interest payment are determined and deposited into the debt service reserve accounts, which are funded by gross receipt taxes.

As of September 30, 2001 debt service requirements for bonds outstanding are as follows (expressed in thousands):

		Principal	Interest	Total
Year:				
2002	$	19,285	47,564	66,849
2003		20,395	46,450	66,845
2004		21,555	45,298	66,853
2005		21,155	44,094	65,249
2006		20,715	42,939	63,654
Thereafter		722,410	519,735	1,242,145
	$	825,515	746,080	1,571,595

iii. Notes Payable

The Government and FEMA entered into two Community Disaster Loan Agreements (CDL) on September 19, 1990 and June 14, 1996. The purpose of the 1990 and 1996 CDLs was to enable the Government to continue to provide vital municipal services such as public health and safety, police and fire protection, and the operation of public schools, among other things, after the Government had suffered a substantial loss of tax and other revenue as a result of the Hurricane Hugo and Hurricane Marilyn disasters which occurred in 1989 and 1995, respectively. The loan proceeds were not intended to provide funds to finance capital projects, nor the repair or restoration of public property damaged by Hurricane Hugo or Hurricane Marilyn. The CDLs, by their terms, are secured by a pledge of the full faith, credit, and taxing power of the Government.

Based on a review of the Government's CDL applications, FEMA determined that the Government was eligible for a loan of $89.9 million as a result of Hurricane Hugo.

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However, drawdown of funds was limited to $50.1 million. The loan accrued interest at the annual rate of 8.25%. In November 1997, the Government received a notification from FEMA stating that $21 million of unpaid principal were condoned and that the remaining principal unpaid balance of $29 million would be paid in 34 quarterly payments. As of September 30, 2000 the Government met all necessary requirements to request the debt cancellation. In December 2001, the U.S. Department of Interior notified the Government that the U.S. Congress appropriated the funding required for the forgiveness of all remaining payment obligations on the 1990 CDL. As a result, the Government has eliminated the $29 million forgiven balance from its books in 2000.

Pursuant to 44 Code of Federal Regulations (C.F.R.), Section 206.366, Subpart K, the Government submitted an Application for Administrative Loan Cancellation in connection with the Hurricane Marilyn 1067-60 CDL in June 2001. By this application the Government requested cancellation of $127.5 million in principal drawdowns and the attendant accumulated interest to date.

The 1996 CDL accrues interest at the annual rate of 6.35% and is to be paid in 40 quarterly payments starting in June 26, 2001. As of September 30, 2001 the interest of the CDL has not been paid. This unpaid interest amounted to $10.7 million as of September 30, 2001 included in Government's general long-term debt account group since it is not expected to be paid with the current expendable available resources. The Government plans to pursue its rights under FEMA rules and regulations for administrative cancellation of all or part of the Hurricane Marilyn CDL. The Government also intends to pursue relief through federal legislation, if necessary, following administrative proceedings before FEMA. The 1996 CDL outstanding principal balance as of September 30, 2001 amounted to $127 million.

In addition to the 1990 and 1996 CDLs, FEMA provided the Government a state share loan on May 3, 1996. The loan provides the Government with funds to be used for the matching portion of FEMA programs. The loan accrues interest at an annual rate of 6.35% with final maturity in August 2002. At September 30, 2001 the outstanding principal balance of this loan amounted to approximately $5 million.

In May 1999, the Government was granted a deferral on four quarterly payments on the state share loan. In April 2000, FEMA extended the deferral of principal and interest on both loans for two additional quarters.

In the event of a default by the Government, FEMA is entitled to recover the delinquent outstanding principal, plus any accrued and unpaid interest, under federal debt collection procedures, including administrative offset against other federal funds due to the Government, which may include matching fund revenue.

As of September 30, 2001 debt service requirements for notes payable outstanding are as follows (expressed in thousands):

		Principal	Interest	Total
Year:				
2002	$	5,017	32,290	37,307
2003		397	20,984	21,381
2004		13,651	7,730	21,381
2005		14,540	6,841	21,381
2006		15,485	5,896	21,381
Thereafter		83,128	13,085	96,213
	$	132,218	86,826	219,044

B. Discretely Presented Component Units

i. Public University Funds

The University issued the following notes payable (expressed in thousands):

	Final maturity	Interest rates		Balance
Note payable, secured by the PG	2024	5.5%	$	1,930
Unsecured notes payable	2005	8%		1,700
Total			$	3,630

At September 30, 2001 the public university funds had a note payable related to the construction of certain academic facilities and a water distribution system which were completed during 1994. The amounts originally advanced by the U.S. Department of Education were converted to a note payable at that time. As of September 30, 2001 the amount outstanding was $1.9 million. The note is payable, along with the related interest, in semiannual installments of $75,000 including interest, over a term of 30 years, and bears interest at an annual rate of 5.5%. The note is secured by a general obligation of the Government.

During 2001, the University borrowed from a private company approximately $2.3 million to purchase land for future expansion of the University. As of September 30, 2001 the amount outstanding was $1.7 million. The entire outstanding balance is due upon maturity in October 20, 2005. The interest in the note is payable in semiannual installments of $34,000 until its maturity, and bears interest at an annual rate of 8%.

(Continued)

The University has issued the following bonds, the proceeds of which have been used mainly to finance new activities in connection with its educational facilities' construction program (expressed in thousands):

	Final maturity	Interest rates		Balance
General obligation bonds of 1995	2002	6.12% to 7.82%	$	1,158
General obligation bonds of 1999	2029	6.50% to 7.75%		25,000
Various building bonds	2004	3.00% to 7.50%		494
Subtotal				26,652
Less unamortized discount				464
Bond payable, net			$	26,188

On December 29, 1994 the University issued additional General Obligation Bonds totaling $5 million for the refinancing of certain equipment. These bonds also require the University to establish a debt service reserve fund, which is to be maintained at a sum equal to 5% of the bond proceeds. These bonds are secured by the refinanced equipment and are to be repaid in semiannual installments of approximately $413,000, including interest.

During fiscal year 2000, the University issued the 1999 Series A Bonds. The University issued these bonds to finance a portion of the construction, furnishing, and equipping of various facilities of the University, to refund $14 million outstanding principal amount of general obligation bonds 1994 Series A issued by the University, to fund a debt service reserve fund for the 1999 Series A Bonds and to pay certain cost issued under and secured by an indenture of trust dated as of December 1, 1999 between the University and the trustee. The 1999 Series A Bonds, maturing on or after December 1, 2010 are subject to redemption prior to maturity at the option of the University, as a whole or in part of any date, on and after December 1, 2009 at the redemption prices ranging between 100% and 102% of their principal amount, plus accrued interest to the date fixed for redemption.

The various building bonds payable as of September 30, 2001 are collateralized by mortgages on the University's property, by a pledge of the gross revenue derived from the operation of certain student and faculty housing and service facilities, a lien and pledge of funds available to the University for general operation purposes as required under the bond indenture agreements, and by annual grant payments that the U.S. government has agreed to fund as a debt subsidy. The bonds are subject to redemption at predetermined amounts, which may include penalties, as provided in the Indenture Agreements. These indentures require the University to meet certain funding requirements for repair and replacement reserves and bond sinking funds.

Future amounts required to pay principal and interest on University System Bonds at September 30, 2001 are as follows (expressed in thousands):

		Principal	Interest	Total
Year ending September 30:				
2002	$	1,540	524	2,064
2003		777	1,428	2,205
2004		419	1,405	1,824
2005		405	1,386	1,791
2006		425	1,366	1,791
Thereafter		23,086	20,367	43,453
Total	$	26,652	26,476	53,128

ii. Public Benefit Corporations

Bonds payable of public benefit corporations are those liabilities that are paid out of resources pledged by such corporations. These revenue bonds do not constitute a liability or debt of the Government. Bonds and note payable outstanding at September 30, 2001 are as follows (expressed in thousands):

Bonds payable	Final maturity date	Interest rates		Balance
Virgin Islands Water and Power Authority (Electric System)	2022	4.25% to 5.40%	$	104,190
Virgin Islands Water and Power Authority (Water System)	2017	4.90% to 5.50%		42,625
Virgin Islands Port Authority	2005	3.45% to 4.50%		13,696
Subtotal				160,511
Plus unamortized premium				237
Less deferred amount on debt refunding and reacquisition costs				(8,740)
Bonds payable, net			$	152,008

The bonds payable of the WAPA (Electric System) consist of Electric System Revenue and Refunding Bonds. The Electric System Revenue and Refunding Bonds amounting to $107.8 million were issued in June 1998. The proceeds from the bonds and approximately $14 million in funds from the existing debt service funds were used to repay the lines of credit of the Electric System in the amount of $18 million, to provide for approximately $30 million in funds for the construction of certain capital projects, and to pay underwriters discount and issuance costs of approximately $1.7 million. The remaining proceeds were used to purchase direct obligations of the U.S. government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of 1991 Series A Electric System Revenue Bonds. At June 30, 2001 $60 million of the original principal amount of the defeased 1991 bonds remained outstanding.

The advance refunding of the 1991 Series A Electric System Revenue Bonds resulted in a difference between the reacquisition price and the net carrying amount of the bonds of $7.1 million. This amount is recorded as a reduction of the new bonds and is being amortized as a component of interest expense through 2011. The Electric System completed the refunding to reduce the interest rate component of its bonds, to pay down its outstanding variable rate lines of credit, and to provide for additional funds to finance certain capital projects. The transaction decreased debt service payments related to the refunded debt by $5.2 million over the life of the new bonds and resulted in an economic gain of $3.1 million.

Under the terms of the Bond Resolution relating to the Electric System Revenue and Refunding Bonds, payment of the principal and interest is secured by an irrevocable lien on the Electric System's net revenue (exclusive of any funds which may be established pursuant to the Bond Resolution for certain specified purposes), including the investments and income, if any, thereof. The Electric System is required to make deposits in a debt service reserve fund or establish a letter of credit in favor of the bond trustee in accordance with the Bond Resolution. At June 30, 2001 the Electric System had established a letter of credit in the amount of $9.3 million to satisfy the debt service reserve requirements. The letter of credit expired on October 31, 2001.

The Bond Resolution contains certain restrictions and commitments, including the Electric System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net electric revenue, as defined, that will be at least 125% of aggregate annual principal and interest. The Electric System's net electric revenue for the fiscal year ended June 30, 2001 was 218% of aggregate debt service.

The 1998 Series Electric System Revenue and Refunding Bonds are subject to redemption on or after July 1, 2008, in whole or in part at any time at a redemption price of 101% in 2008, 100.5% in 2009, and 100%, thereafter. The Electric System Revenue Bonds are subject to mandatory redemption if any significant part of the Electric System shall be damaged, destroyed, taken, or condemned, or any for profit, nongovernmental investor shall acquire an ownership interest in some or all of the assets of the WAPA.

The bonds payable of the WAPA (Water System) consist of Water System Revenue and Refunding Bonds. The Water System Revenue and Refunding Bonds amounting to $44.2 million were issued in December 1998. The proceeds from the bonds were used to repay outstanding lines of credit balances, to pay underwriters costs, to provide funding for a renewal and replacement reserve fund, to refund the 1990 Series A Bonds at redemption price of 100% of the principal amount outstanding of $20.4 million, and to purchase obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining $17 million principal amount of the 1992 Series B Bonds.

The refunding of the 1990 Series A and 1992 Series B Bonds resulted in a difference between the reacquisition price and the net carrying amount of the bonds of \$3.8 million. This amount is recorded as a reduction of the new bonds and is being amortized as a component of interest expense through 2011. The Water System completed the refunding to reduce the interest rate component of its bonds and to pay down its outstanding variable rate lines of credit. The transaction increased debt service related to the refunded debt by \$9.8 million over the life of the new bonds as a result of extending the maturity date, and resulted in an economic gain of \$2.4 million.

Payment of principal and interest of the 1998 Series Bonds is secured by an irrevocable lien on the Water System's net revenue (exclusive of any funds which may be established pursuant to the Bond Resolution for certain other specified purposes) and funds established under the Bond Resolution, including investment securities. To provide additional security, the Water System has conveyed to the bond trustee a subordinate lien and security interest in the Water System's net assets. The Water System is also required to make deposits in a debt service reserve fund in accordance with the Bond Resolution.

The Bond Resolution contains certain restrictions and commitments, including the Water System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net water revenue, as defined, that will be at least 125% of aggregate annual principal and interest payments. The Water System's net water revenue for the year ended June 30, 2001 was 175% of aggregate debt service.

The 1998 Series Bonds maturing on or after July 1, 2010, are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time at a redemption price of 101% during July 1, 2009 through June 30, 2010 and 100%, thereafter.

On October 28, 1998 VIPA issued the 1998 Airport Revenue Bonds Refunding Series A, the 1998 Rohlsen Terminal Airport Revenue Bonds Series A, and the 1998 Marine Revenue Bonds Refunding Series A, with principal amounts of \$19.3 million, \$3.1 million, and \$2.7 million, respectively. The bonds were issued for the advance refunding of previously issued bonds. The refunding resulted in a debt service saving of approximately \$3.2 million and an economic gain of \$2.4 million.

The Airport Revenue Bonds constitute special obligations payable solely from and secured by a pledge of net revenue of VIPA derived from its Airport System (as defined), which consists of the airside and landside operations at the Cyril E. King Airport in St. Thomas and airside operations at the Henry E. Rohlsen Airport in St. Croix. The Rohlsen Terminal Bonds constitute special obligations payable solely from and secured by a pledge of net revenue of VIPA derived from the Rohlsen Terminal. In addition, net marine revenue is pledged for payment of the Rohlsen Terminal Bonds if revenue from the Rohlsen Terminal is not enough to meet the debt service requirements. The Marine Revenue Bonds are secured solely by the net available revenue of VIPA's Marine Division.

The Airport Revenue Bonds, the Marine Revenue Bonds, and the Rohlsen Terminal Bonds (collectively the Bonds) do not under any circumstances constitute general obligations of VIPA, the Aviation or Marine Division, the Government; or the United States, neither are the Bonds evidence of a debt of the Government nor the United States. The revenue of the Airport System is not available for the payment of principal or interest on the Marine Revenue Bonds or Rohlsen Terminal Bonds; likewise, the revenue of the Marine Division and the Rohlsen Terminal is not available to pay the principal or interest of the Airport Revenue Bonds except for any surplus of marine revenue which is available for any lawful purpose designated by VIPA. Neither the credit of the Government nor that of its political subdivisions is pledged or available for the payment of principal or interest on the Bonds. VIPA has no taxing power.

The Bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance, and other costs as specified in the corresponding bond indentures. Management believes that VIPA has established the aforementioned required accounts and has complied with the contribution requirements with respect to the Bonds. In addition, it is management's opinion that VIPA has complied with limitations and restrictions imposed by the Bonds' indentures.

The Bonds' indentures also specify certain debt service coverage requirements determined from net available revenue of VIPA's Airport System, the Rohlsen Terminal, and the Marine Division. The provisions of each of the Bonds' indentures require that rates and fees charged for the use of each facility should be sufficient to generate enough revenue to pay all operation and maintenance expenses, exclusive of depreciation, of the respective facilities, plus: (i) at least 125% of the principal and interest and redemption account sinking fund deposit requirement of each of the Bonds becoming due during such year; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the Capital Improvements Appropriations for such period. For fiscal year 2001, VIPA met all the requirements described above.

VIPA entered into use agreements with certain airlines servicing the Airport System which provided the basis for determining landing fee rates and other charges to those airlines for the use of the Airport System facilities for as long as any of the Airport Revenue Bonds are outstanding. The use agreements provide that in no event is the Airport System revenue to be less than that required by the Airport Revenue Bond resolution.

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Fixed maturities required to pay principal and interest on public benefit corporations bonds payable with fixed maturities at September 30, 2001 are as follows (expressed in thousands):

		Bonds payable	
	Principal	Interest	Total
Year ending September 30:			
2002	$ 8,790	8,268	17,058
2003	8,955	7,858	16,813
2004	9,385	7,434	16,819
2005	9,836	6,979	16,815
2006	6,575	6,501	13,076
Thereafter	116,970	50,199	167,169
Total	$ 160,511	87,239	247,750

(10) Commitments and Contingencies

A. *Primary Government*

The current labor relations environment of the Government is defined by 12 distinct labor organizations subject to approximately 30 collective bargaining agreements. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and nonprofessional workers, in different departments throughout the Government represented by different unions. Of the approximately 9,735 government workers, including employees of all three branches of the Government, approximately 8,028 belong to unions. The present collective bargaining statute requires binding arbitration for certain classified employees in the event of an impasse during salary negotiations between the Government and any union. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen parties. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision; for other classified employees, the Government must decide to go to impasse or to enjoin the strike. The Government has contractual liabilities for retroactive union arbitration salary increases aggregating $369 million accruing from fiscal years 1993 through 2001. Pursuant to Title 24 of the V.I. Code Section 374(h), no such contract is binding until appropriation of funds is made by the Legislature. Upon action of the Legislature, retroactive wages become a current liability of the Government payable from the general fund. At such time, it will be recorded as a liability in the general fund. At September 30, 2001 the liability for retroactive union arbitration salary is included in other long-term liabilities in the general long-term debt account group in the accompanying combined balance sheet.

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Loans received are described in note 9(A)(iii). Noncash federal financial assistance programs received by the Government during fiscal year ended September 30, 2001 amounted to approximately $18.2 million. Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially, all grants are subject to audit under the OMB Circular A-133. Disallowances as a result of these audits may become liabilities of the Government. At September 30, 2001 based on an evaluation of pending disallowances, the Government has recorded approximately $24 million as other long-term liabilities in the general long-term debt account group for this purpose.

The Government has not contracted the audits for fiscal year 1997 required by OMB Circular A-133 and the audit for fiscal year 1996 required by OMB Circular A-128 (applicable for that year). Management of the Government has agreed with representatives of the federal granting agencies to apply certain agreed-upon procedures in lieu of these pending federally-mandated audits.

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

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under the Title 33 of V.I. Code of Section 3411(c), no judgment shall be awarded against the Government in excess of $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under the Title 27 of V.I. Code of Section 166(e), the Government's waiver of immunity is expanded to $100,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33 of V.I. Code of Section 3414, the Government may assume the payment of a judgment entered against an officer or employee of the Government for claims filed under federal statutes if the court which hears the case rules that said officer or employee acted reasonably and within the scope of their employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has reported a provision for legal claims and judgments of approximately $11 million for awarded and anticipated unfavorable judgments. This amount was included as other long-term liabilities in the general long-term debt account group and represents the amount estimated as a probable liability or a liability with a fixed or expected due date which will require future available financial resources for its payment. Management believes that the ultimate liability in excess of amounts provided would not be significant.

State and federal laws and regulations require the Government to place a final cover on the Government landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site until compliance is achieved. In accordance with GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Cost,* (GASB No. 18), the Government should perform a study of the activities that need to be implemented at the Government landfill to guarantee the maximum yield of available space and to comply with applicable state and federal regulations. In addition, GASB No. 18 requires that estimated landfill closure and postclosure care costs be accrued as a liability in the general purpose financial statements. The Government has not conducted the study needed to comply with the requirements of GASB No. 18, therefore, no liability has been accrued as of September 30, 2001.

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The Moderate Income Housing Fund, reported as an enterprise fund, is contingently liable for certain loans of individual borrowers.

Approximately $94 million of the proceeds of the Series 1998 E Bonds, together with certain federal funds amounting to approximately $61 million and other funding sources of approximately $15 million, are intended to finance certain capital projects with estimated total costs of approximately $170 million. The nature of the capital projects includes the construction and improvements to waste water treatment facilities, pursuant to a Consent Decree entered by the Government and the U.S. Environmental Protection Agency (EPA) in September 1995, with an estimated cost of approximately $41 million.

Under the Consent Decree with EPA, the Government is committed to: (i) construct two regional waste water treatment facilities in St. Thomas and St. John; (ii) construct an outfall extension for the waste water treatment plant in St. Croix; (iii) replace the Anguila Force Main in St. Croix; and (iv) implement plant-by-plant operational improvements and pump station rehabilitation throughout the Territory, including the replacement of equipment, repairs, and maintenance at 37 waste water facilities. These projects are currently funded by EPA and the bond proceeds (see note 9). As of September 30, 2001 $26 million of the proceeds of the Series 1998 E Bonds remained unexpended.

At September 30, 2001 the Government has applied for funding of certain additional capital projects with the U.S. government. In the event the Government receives federal funding for capital improvements which have been approved for financing from the proceeds of the Series 1999 E Bonds, the Government intends to reallocate such proceeds to other approved projects in accordance with the terms of the bond indenture.

In October 1999 the Government and the U.S. Department of Interior (DOI) entered into a Memorandum of Understanding (the MOU) whereby the Government agreed to use its best efforts to undertake certain deficit reduction initiatives. As a condition to certain new and additional federal financial and technical assistance included in or being proposed in federal appropriations or other legislation, certain financial performance and accountability standards were agreed upon by the Government which the DOI believes are necessary for the Government to achieve long-term economic recovery. Pursuant to the MOU, the release of such new and additional federal funds to the Government is subject to compliance with such performance and verifiable objectives agreed upon in such agreement. The accountability and financial performance standards agreed upon in the MOU include: (i) preparation of five-year financial recovery plan to be provided to DOI within 90 days of the date of the MOU; (ii) absent extraordinary circumstances to maintain balanced budgets after fiscal year 2003 with any generated surpluses applied to the reduction of the accumulated deficit and unfunded obligations; (iii) annual preparation of financial reports; and (iv) efforts to reduce the outstanding debt of the Government. On October 29, 1999 DOI and the Government entered into an amendment of the MOU which amended the Government's requirement to seek change in the Virgin Islands public labor relations law to comply with federal labor law. Pursuant to such amendment, the Government, in collaboration with union representatives, is encouraged to pursue reform initiative through collective bargaining to bring fiscal solvency to the Government. In addition to the financial performance standards set forth in the MOU, the

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MOU further provides for DOI and the Government to enter into a program of preservation and enhancement of the natural, cultural, and historic resources of the U.S. Virgin Islands to stimulate local economic growth through sustainable tourism. The Government is discussing with DOI certain events of noncompliance, remedial action necessary to comply with the provisions of the MOU and its effect on the Government's financial condition and results of operations. In January 2002 the Government received a draft audit report from the U.S. Department of the Interior (DOI) Office of the Inspector General regarding the MOU entered into with DOI. The draft audit report is currently under discussion. Management of the Government believes that the future outcome of this report will not have a material effect on the general purpose financial statements.

In April 2000 the Economic Recovery Task Force submitted the five-year operating and strategic financial plan to the Governor for action. The plan provides over 200 recommendations that propose to reduce and eventually eliminate the structural budget deficit by restructuring and reforming Government operations and forging a partnership with the private sector intended to result in sustained growth.

B. Public Benefit Corporations

WAPA estimates that capital expenditures in connection with continuing capital improvements will be approximately $52 million during fiscal year 2002. WAPA is presently a defendant or codefendant in various lawsuits; however, any adverse outcome involving a material claim is expected to be substantially covered by the insurance. WAPA facilities were damaged by Hurricane Hugo in September 1989. WAPA reconstructed its system with proceeds from insurance and FEMA. On March 23, 1998 FEMA issued an audit report concluding that WAPA should refund approximately $7.9 million of aggregated questioned costs. Approximately $2.6 million of these questioned costs related to an oil spill that was subsequently settled with FEMA. During 1998, WAPA submitted a second appeal for $4.4 million of the remaining questioned costs and agreed to refund approximately $900,000 of questioned costs to FEMA. During 1999, FEMA denied WAPA's second appeal and formally closed the Hurricane Hugo disaster. At June 30, 2001 WAPA has recorded a liability of $5 million for amounts owed to FEMA for overpayments related to these questioned costs. FEMA has not made a formal request for repayment of these funds.

In September 1995, WAPA's facilities suffered extensive damage from Hurricane Marilyn. During 1996, WAPA reconstructed its system with proceeds from insurance and FEMA. In March 1999 FEMA denied WAPA's claim for $8.9 million of remaining expenditures related to the reconstruction. WAPA has subsequently reduced its claim to $5.7 million and is currently negotiating with FEMA regarding reimbursement of these remaining expenditures. Although management of WAPA believes the ultimate resolution of this matter will result in WAPA receiving additional reimbursement for prior expenditures, WAPA has not recorded any amounts to reflect these potential recoveries in the accompanying general purpose financial statements.

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WAPA has available lines of credit for $12.5 million and $7.5 million with banks for the Electric System and Water System, at year-end. Interest on amounts borrowed is payable quarterly at a variable interest rate of either prime plus 1% LIBOR plus 1.5% or 150-basis points above the interest rate on three-year U.S. government treasury notes. WAPA has the option to select the variable interest rate to utilize. At year-end the weighted average interest rate was 6.4%. At June 30, 2001 there was $20 million outstanding under the lines of credit for the Electric System and Water System, respectively, and no funds were available for borrowing under these lines. One line of credit expires on June 30, 2002 subject to annual renewal, while the other expires on April 30, 2003.

In 1993, VIPA developed a master plan for the expansion and improvement of the Henry E. Rohlsen Airport (HERA) in St. Croix. The Federal Aviation Administration approved the master plan and federal funding has been awarded in a series of grants corresponding to the various phases of the master plan. As of September 30, 2001 the HERA project was substantially completed.

In connection with federal grants programs, VIPA is obligated to administer and spend the grant funds in accordance with regulatory restrictions, and is subject to audit by the grantor agencies. In cases of noncompliance, the agencies involved may require VIPA to refund programs' moneys. During the normal course of business, VIPA is a defendant in various lawsuits. In the opinion of management and legal counsel, the outcome of these cases and resulting liability, if any, is either adequately covered by insurance or should not materially affect VIPA's financial position.

(11) Retirement Systems

A. *Plan Description*

GERS is the administrator of a cost-sharing multiple-employer defined-benefit pension plan established as of October 1, 1959 by the Government to provide retirement, death, and disability benefits to its employees. The following description of the plan is provided for general information purposes only. Refer to the actual text of the retirement law in the Title 3 of V.I. Code Chapter 27 of more complete information. Regular employees are eligible for a full service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Members who are considered "Safety Employees," as defined in the V.I. Code, are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and completed six years of credited service or earned at least six years of credited service as a member of the Legislature. GERS is a blended component unit included in the financial reporting entity and is presented as a pension trust fund of the PG. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees' Retirement System of the Government of the Virgin Islands, GERS Complex, Veterans Drive, St. Thomas, V.I. 00802.

B. Funding Policy

The Government's required contribution for the year ended September 30, 2001 was 14.5% of the member's annual salary. Since April 1, 1991 required member contributions are 8% of annual salary for regular employees, 9% for senators, and 10% for Act 5226 eligible employees. Member contributions are refundable without interest upon withdrawal from employment before retirement. Subsequent to September 30, 2001 legislation was passed that provided for 4% annual interest on refunded contribution. The Government's contributions to the plan for the years ended September 30, 2001, 2000, and 1999 amounted to $43 million, $44 million, and $45.1 million, respectively, that represented 67.60%, 67.82%, and 72.54% of the required contributions for each year. In August 1994 legislation providing an early retirement incentive was passed. The legislation was subsequently amended on October 13, 1994, December 30, 1994, and December 5, 1995. Among other matters, the legislation allows a member of GERS who has a combined aggregate number of years of credited service plus number of years of age, equal to at least 75 years as of the date of the legislation to retire without reduction of annuity. Members who have attained the age of 50 with at least 10 but less than 30 years of credited service, may add an additional three years to their age for this computation. Members with 30 years of service or who can retire without penalty under the V.I. Code shall have their average compensation increased by 4 percentage points.

For each employee electing to retire pursuant to Section 8(a) of the Early Retirement Act of 1994 (the Act), the Government contributes to GERS, on a quarterly basis, an amount equal to the employer and employee contributions that would have been made until the employee reached the age of 62 had the employee not elected to retire under this provision. For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary 4% higher during the three years used to compute the employee's "average compensation" figure, plus a sum of $5,000. Based on the calculation, this amount under 8(a) and 8(b) was approximately $14.6 million and $12.9 million as of September 30, 2001 and 2000, respectively. As of September 30, 2001 GERS has received $5.4 million of such amount.

The actuaries of GERS have determined that the specific funding provided under the Early Retirement Act of 1994 is inadequate to cover the costs of the program. GERS is seeking to recover any unfunded costs of the program under a newly enacted provision of the retirement law, which provides that the employer will compensate GERS for the costs of any special early retirement program.

GERS was subject to a lawsuit for relief and damages arising out of Act No. 6088, which offered early retirement incentives to certain government employees. A judgment was reached in favor of the employees in October 1998. On December 14, 1999 the parties involved reached at a settlement, which was approved by the court. Unpaid damages associated with this suit as of September 30, 2001 have been estimated at approximately $25,000 including attorneys fees, which have been substantially accrued within other liabilities in the accompanying combined balance sheet.

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The following presentation displays the statement of plan net assets for GERS as of September 30, 2001 (amounts in thousands):

Assets		
Investments:		
Marketable securities:		
U.S. government and government-guaranteed obligations	$	281,331
Corporate obligations		128,746
Foreign bonds		81,654
Common stock – U.S.		436,579
Common stock – foreign		48,500
Collateralized debt obligations		19,585
Mutual funds		18,830
		1,015,225
Member loans:		
Mortgage		28,689
Personal and auto		70,350
Less allowance for losses		(3,000)
		96,039
Real estate		45,249
Invested securities lending collateral		170,659
Cash and cash equivalents		69,819
Unsettled securities sold		3,551
Other assets		9,618
		1,410,160
Liabilities		
Securities lending collateral		170,659
Unsettled securities purchased		19,870
Accounts payable and accrued expenses		5,448
		195,977
Plan net assets held in trust for pension benefits	$	1,214,183

In addition to GERS, all eligible employees of the University are required to participate in the Teachers Insurance and Annuity Association – College Retirement Equities Fund (TIAA-CREF) which is a defined-contribution pension plan covering participating full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs and vested benefits are equal to the annuities purchased under TIAA-CREF. As of September 30, 2001 approximately 198 faculty members and other employees were TIAA-CREF participants.

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(12) Segment Information – Enterprise Funds (Unaudited)

The enterprise funds are composed of approximately 44 funds and two entities that provide a variety of services to commercial and government entities as well as individuals. It includes the operation of dock facilities, a shopping mall, and the lottery. Services include loan programs, insurance, housing facilities, commercial services, and others.

The significant funds and entities are as follows:

A. Virgin Islands Lottery

The Virgin Islands Lottery (the Lottery) was created as an instrumentality of the Government by Act No. 3055 of May 28, 1971. The revenue is generated from the sale of tickets to pay administrative expenses and prizes and increase general fund revenue. The Lottery is required to transfer to the general fund not less than 8% of total revenue and the surplus, if any, from its operation in accordance with Title 32 of the V.I. Code. The prize money of a drawing for which the winning ticket is not sold, is carried over and added to the prize money of the next drawing. Any unclaimed prizes, after six months of being awarded, are retained by the Lottery for the payment of future prizes.

B. Government Insurance Fund

The Government Insurance Fund accounts for the operating results of the administration of the Workmen Compensation Law. The law was created on July 1, 1941 to insure workers in the event of work-related accidents. Revenue consists of premiums collected from all employers in the United States Virgin Islands. Expenses are mainly administrative and benefits are provided to covered employees. Temporary benefits provided include medical rehabilitation, restoration of a portion of lost wages, and vocational rehabilitation, when necessary. Continuous income benefits are paid for permanent total disability, lapsing upon death of the recipient.

C. The West Indian Company

The West Indian Company (WICO) is engaged in the operation of a dock facility and shopping mall in St. Thomas. The Government acquired all of the outstanding stock of WICO on July 1, 1993 for a purchase price of $54 million. In connection with the purchase, the Government obtained a short-term note payable amounting to $18 million. On December 21, 1993 the note payable was refinanced with a long-term loan amounting to $18.2 million with an interest rate of 5.75% payable in monthly installments of $127,000 including interest and a final payment comprised of the principal sum outstanding and all accrued unpaid interest to the date of the final payment. The revenue of WICO is pledged for the payment of principal and interest on the loan.

During fiscal year 2001 WICO received $8 million in construction funds. The debt will be restructured at the end of the construction phase. Future minimum payments of principal are as follows (expressed in thousands):

Year:		
2002	$	968
2003		1,028
2004		1,093
2005		1,161
2006		1,234
Thereafter		15,797
Total	$	21,281

Condensed financial information of significant funds and entities presented under the enterprise funds column is as follows (expressed in thousands):

		Virgin Islands Lottery	Government Insurance Fund	The West Indian Company	Others	Total
Operating revenue	$	13,614	7,498	10,937	10,478	42,527
Operating expenses		14,923	6,181	6,840	13,872	41,816
Operating income (loss)		(1,309)	1,317	4,097	(3,394)	711
Operating transfers to other funds, net		—	—	(2,000)	—	(2,000)
Others		151	—	(962)	(118)	(929)
Net income (loss)	$	(1,158)	1,317	1,135	(3,512)	(2,218)
Current assets	$	1,586	6,867	10,670	622	19,745
Current liabilities		6,882	2,331	1,397	764	11,374
Net working capital (deficiency)		(5,296)	4,536	9,273	(142)	8,371
Other assets		122	66	32,102	3,248	35,538
Other liabilities		—	214	21,281	4,346	25,841
Fund equity (deficit)	$	(5,174)	4,388	20,094	(1,240)	18,068

In addition, the general fund has been restated to reflect an adjustment to correct the subsequent collection revenue recognition.

(13) Restatements

Public Benefit Corporations

The beginning fund equity for the year ended September 30, 2001 of the discretely presented public benefit corporations has been restated to reflect the restatement of the following entities: VHFA, VIHA, WAPA – Electric System, WAPA – Water System, Juan F. Luis Hospital, MBA, the inclusion a compilation of financial information of Roy Schneider Hospital and of audited financial information of VIHA and the Governor Juan F. Luis Hospital and Medical Center.

The following table summarizes the restatements of the beginning fund equity for the year ended September 30, 2001 (expressed in thousands):

		Public benefit corporations
Fund equity, as previously reported – September 30, 2000	$	475,197
Restatement to correct beginning fund equity of VIHA due to various adjustments made during the reconciliation of VIHA's accounting records		6,349
Restatement to correct beginning fund equity of WAPA – Electric System due to adjustment to the allowance for doubtful accounts pertaining to 2000		5,091
Restatement to correct beginning fund equity of WAPA – Water System due to adjustment to the allowance for doubtful accounts pertaining to 2000		2,178
Restatement to correct beginning fund equity of Juan F. Luis Hospital due to unrecorded nursing expenditures in 2000		(571)
Restatement to correct beginning fund equity of MBA due to lack of records in 2000		2,642
Restatement to reflect the inclusion of Roy Schneider Hospital		74,589
Restatement to reflect the inclusion of VIHFA		27,528
Beginning fund equity, as restated – September 30, 2000	$	593,003

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(14) Subsequent Events

A. Primary Government

In November 2001 the Tobacco Settlement Financing Corporation, a special purpose independent instrumentality of the Government, issued $21.7 million of Tobacco Settlement Asset-Backed Bonds, Series 2001. Bond proceeds are for the financing of several capital hospital and health department projects. The balance of the proceeds will be applied to fund the debt service requirements, issuance cost, and fund initial operating cost for the Series 2001 bonds.

In January 2002 the Government received a draft audit report from the U.S. Department of the Interior (DOI) Office of the Inspector General regarding the MOU entered into with the DOI and described more fully in note 10 of this report. The matters addressed in the report are under discussion and a final audit report has not been issued yet.

In March 2002 President Bush signed the Job Creation and Worker Assistance Act of 2002. Included in the Act is legislation to maintain the rate of federal excise taxes on rum transferred to the Government at $13.25 per proof gallon and to extend this rate until December 31, 2003. Excise rum tax rebates are pledged to support debt service cost of the 1998 Revenue Bonds of the Government as discussed in note 9(A)(2).

B. Public University Funds

Upon issuance of Act No. 6502 on January 31, 2002, the Government established The Virgin Islands Research and Technology Park (the Corporation) as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government. The purpose is to develop a technology sector in the United States Virgin Islands to promote the economic growth, development, and diversification of the United States Virgin Islands and the broadening of the capabilities of the University, including the training of University, with the support of a research environment which combines the resources of the University, the public sector, private industry, and the human and economic resources available in a progressive community. The powers shall be exercised by a board of directors consisting of the Chairman of the board of trustees, the President of the University, two persons selected from among the University's board of trustee of University and 3 members appointed by the Governor.