PRICEWATERHOUSECOOPERS

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

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

Management's Discussion and Analysis, Basic Financial Statements and Supplementary Information

September 30, 2007 and 2006

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
Index
September 30, 2007 and 2006

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
254 Muñoz Rivera Avenue
BBVA Tower, 9th Floor
Hato Rey PR 00918
Telephone (787) 754 9090
Facsimile (787) 766 1094

Report of Independent Auditors

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

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets, and of cash flows (collectively "the basic financial statements") present fairly, in all material respects, the financial position of The Virgin Islands Public Finance Authority (a blended component of The Government of the United States Virgin Islands) (the "Authority") at September 30, 2007 and 2006 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Condensed Information Schedules included on Exhibit I, as of September 30, 2007 and for the year ended are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

August 8, 2008

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2010
Stamp 2289593 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

The Management and Board of Directors of the Virgin Islands Public Finance Authority (the "Authority") are pleased to present the following discussion and analysis of the Authority's financial performance for the fiscal years ended September 30, 2007 and 2006.

Please read this information in conjunction with the Authority's financial statements, which begin on page 8.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, and Notes to the Financial Statements presented on pages 8 through 34 provide information about the activities of the Authority as a whole.

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. The Statement of Revenues, Expenses and Changes in Net Assets provides information showing how the Authority's net assets changed during the most recent fiscal year. The Notes to the Financial Statements provide additional information regarding the financial statements.

FINANCIAL HIGHLIGHTS

At September 30, 2007, the total assets of the Authority amounted to $1.5 billion, of which $47.2 million were capital assets (2006 - $1.6 billion of which $43.8 million were capital assets). Total liabilities amounted to $1.4 billion of which $1.1 billion represent bonds and loans outstanding, and $289 million represent other liabilities (2006 - $1.5 billion of which $1.1 billion were for bonds and loans outstanding, and $360 million were for other liabilities) . The total assets of the Authority exceeded its liabilities as of September 30, 2007 by $65.2 million (net assets) (2006 - $66.3 million). Unrestricted net assets amounted to $11.3 million (2006 - $13.3 million), net assets invested in capital assets, net of related debt amounted to $27 million (2006 - $23.1 million), and net assets restricted to debt and investment purposes amounted to $26.9 million (2006 - $29.9 million).

During the fiscal year, the Authority experienced operating income of $1.6 million (2006 – $5.8 million). In addition, the Authority received principal and interest on loans to the Government of the Virgin Islands of $35.4 million (2006 - $28.1 million) and $59.6 million (2006 - $60.5 million), respectively. The Authority made debt service principal and interest payments on bonds of $33 million (2006 - $0) and $60.2 million (2006 - $30.3 million). The Authority made payments on behalf of the Government of the Virgin Islands of $91.9 million (2006 - $146.1 million).

The Authority's net assets decreased by $1.2 million or 1.8% in 2007 and decreased by $2.2 million or 3.3% in 2006.

The activities of the West Indian Company ("WICO") port facility resulted in an increase in net assets of $353 thousand (2006 - $1.1 million).

The activities of the King's Alley Management, Inc. hotel facility resulted in an increase in net assets of $647 thousand (2006 - $1.7 million).

See next page explanations for these changes.

All financial statements have been presented using the accrual basis of accounting.

ACTIVITIES OF THE AUTHORITY

The Authority engages only in business-type activities. The Authority, as a blended component of the Government of the US Virgin Islands was created by the Virgin Islands Act No. 5365, "The Government Capital Improvement Act of 1988" for the purpose of aiding the Government of the Virgin Islands in the performance of its fiscal duties, and in raising capital for essential public projects. Upon issuance of Bonds, the Authority holds and invests the proceeds in short-term investments on behalf of the Government of the Virgin Islands, manages the debt service reserves, receives pledged revenues and invests unused bonds proceeds. Since the Authority holds the bond proceeds, disbursements for the benefit of the Government of the Virgin Islands are recorded as reduction in the amounts due to the Government of the Virgin Islands and are presented in the statement of cash flows as payments on behalf of the Government of the Virgin Islands.

Following is a condensed financial information of the business type activities of the Authority as a whole for years 2007, 2006 and 2005:

	(in thousands)		
	2007	**2006**	**2005**
Condensed information from Statement of Net Assets			
Current assets	129,654	128,997	53,812
Non-current assets excluding capital assets	1,303,820	1,413,361	1,447,432
Capital assets (net of depreciation)	47,186	43,805	41,123
Total assets	1,480,660	1,586,163	1,542,367
Current liabilities	69,944	68,425	37,302
Long-term portion of bonds outstanding	1,068,155	1,101,133	1,056,657
Other Liabilities	277,396	350,258	379,777
Total liabilities	1,415,495	1,519,816	1,473,736
Net Assets			
Invested in capital assets, net of debt	27,020	23,087	20,578
Restricted	26,858	29,941	37,502
Unrestricted	11,287	13,319	10,551
Total net assets	65,165	66,347	68,631
Condensed information from Statement of Revenue, Expenses and Changes in Net Assets			
Operating revenues	14,499	21,233	13,269
Operating expenses	(12,936)	(15,356)	(14,845)
Operating income	1,563	5,877	(1,576)
Non-operating (expenses) income and other changes in net assets	(2,745)	(8,160)	6,061
Change in net assets	(1,182)	(2,283)	4,485

Current assets increased by $657 thousand (increased by $75.2 million in 2006). The increase in 2006 is mainly due to the increase in loans receivable which in turn was due to the issuance of the 2006 note and bonds and the increase in restricted cash of $60 million for the payment of bonds debt service on October 2, 2006.

Capital assets increased by $3.4 million in 2007 (increase by $2.7 million in 2006) due to capital improvements at the Authority's two commercial complexes.

Non-current assets, excluding capital assets, decreased from $1.4 billion in 2006 to $1.3 billion in 2007(stayed the same at $1.4 billion in 2006 and 2005). The decrease is mainly due to the payments made on behalf of the Government of the Virgin Islands and the reduction in restricted loans receivable due to the collections received during the current year.

The net assets of the Authority decreased by $1.1 million during fiscal year 2007 (2006 – decrease of $2.2 million). This decrease in both years in mainly due to the payments made on behalf of the Government of the Virgin Islands.

Non-current liabilities decreased mainly due to the repayment of bonds and notes payable during the year.

In 2007, operating revenues experienced a decrease of $6.7 million due in part to the decrease of $1 million in investment and bond management fees charged to the Government of the Virgin Islands million as a result of fewer Bonds issued when compared to 2006 and a decrease in the operating budget revenue of $5.5 million.

In 2006, operating revenues experienced an increase of $7.9 million due in part to the increase of $2.1 million in investment and bond management fees charged to the Government of the Virgin Islands as a result of the increase in Bonds issued when compared to 2005 and an increase in the operating budget revenue of $7.2 million. The decrease in non-operating revenues is mainly due to the decrease in the gain on sales on investments from $5.4 million in 2005 to $10 thousand in 2006 and an increase in payments on behalf of the Government of the Virgin Islands of $10.9 million.

The Authority also managed two commercial complexes, The West Indian Company (WICO) and King's Alley Management, Inc. (King's Alley). WICO is a port facility including a cruise ship pier, shopping mall and rental complex on the island of St. Thomas. King's Alley is a shopping mall and hotel, on the island of St.Croix.

Following is a condensed financial information for WICO and King's Alley for the years ended 2007, 2006 and 2005:

	WICO			King's Alley		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Operating Revenues	11,374,105	11,575,665	11,358,478	390,583	335,156	359,205
Operating Expenses	(8,974,287)	(8,698,677)	(8,816,670)	(694,015)	(562,844)	(624,331)
Operating Income (Loss)	2,399,818	2,876,988	2,541,808	(303,432)	(227,688)	(265,126)
Nonoperating Revenues	354,709	210,176	147,996	8,800	17,085	27,974
Nonoperating Expenses	(2,401,790)	(1,939,661)	(1,947,057)	-	-	-
Income (loss) before interfund transfers	352,737	1,147,503	742,747	(294,632)	(210,603)	(237,152)
Internal transfers		-	-	941,832	1,935,253	550,000
Change in Net Assets	352,737	1,147,503	742,747	647,200	1,724,650	312,848

WICO's operating revenues consist of agency fees charged to cruise lines and rental income. During fiscal year 2007, the decrease in income is due to a decrease in passenger arrivals from 1,722,457 in 2006 to 1,420,495 in 2007.

The Authority assumed management of King's Alley in July 2001 after default on its collateral guarantee. King's Alley operating loss of $303 thousand is mainly due to the decline in hotel transactions and operations, which turn is due in part to the renovation and improvements being made at the hotel facilities.

Investment Management Activities

During the current year, the Authority (i) managed the assets of six outstanding bond series, (ii) two outstanding note series, and (iii) four defeased bond series.

Investments under management for fiscal years 2007, 2006 and 2005 were as follows:

	Restricted Cash and Investments (in thousands)		
	2007	**2006**	**2005**
Outstanding bond series and notes	290,513	363,011	348,151
Defeased bond series	7,490	6,775	18,355
Investments under management	298,003	369,786	366,506
Other restricted cash, cash equivalents and investments	5,403	6,444	9,630
	$ 303,406	$ 376,230	$ 376,136

DEBT ADMINISTRATION

At year end, the Authority had approximately $1.1 billion in bonds outstanding as follows.

	Bonds Outstanding 9/30/2005	(in thousands) New Issuances	Debt Payments	Defeasance of debt	Bonds Outstanding 9/30/2006	(in thousands) New Issuances	Debt Payments	Bonds Outstanding 9/30/2007
2006 Series	-	219,490	-	-	219,490	-	-	219,490
2004 Series	91,705	-	-	-	91,705	-	(2,980)	88,725
2003 Series	265,145	-	-	-	265,145	-	(2,990)	262,155
2002 Series	12,940	-	-	-	12,940	-	(6,155)	6,785
1999 Series	273,565	-	-	(162,870)	110,695	-	(5,285)	105,410
1998 Series	445,025	-	-		445,025	-	(15,620)	429,405
Total	1,088,380	219,490	-	(162,870)	1,145,000	-	(33,030)	1,111,970

In September 2006, the Authority issued the 2006 Series Bonds amounting to $219.4 million to finance capital projects, refund $162.8 million of the Authority's Revenue Bonds, Series 1999 A, and pay a termination fee of $26.9 million in connection with an outstanding swap option agreement of the Virgin Islands Public Finance Authority (see Note 5 and 6).

The Authority made debt service principal on bonds of $33 million in October 2, 2006.

Defeased bonds outstanding from prior years amounted to $162.8 million (1999 Series), $146.4 million (1989 Series) ($139 million in 2006) and $150.5 million (1994, 1993, 1992 and 1991 Series) ($161.3 million in 2006) at year end.

Loans outstanding were as follows:

	Loans Outstanding 9/30/2005	(in thousands) New Issuances	Debt Payments	Loans Outstanding 9/30/2006	(in thousands) New Issuances	Debt Payments	Loans Outstanding 9/30/2007
2006 VIFD Note	-	4,000	-	4,000	-	(1,266)	2,734
2005 VIPD Note	5,850	-	(2,262)	3,588	-	(2,147)	1,441
WICO	20,546	1,025	(852)	20,719	1,780	(484)	22,015
Total	26,396	5,025	(3,114)	28,307	1,780	(3,897)	26,190

In September 2006, the Authority issued the Series 2006 Notes to finance the purchase of vehicles and equipment for the Virgin Islands Fire Department (see Note 7).

CURRENTLY KNOWN FACTS AFFECTING FINANCIAL POSITION OR RESULTS OF OPERATIONS-ECONOMIC FACTORS

Tax Collections

Bonds and notes issued by the Authority are supported by pledged rum excise tax revenues and gross receipts tax revenues as more fully described in Note 5 of the accompanying financial statements. Rum excise taxes are Federal excise tax collections from rum which are returned to the Government of the Virgin Islands from the Federal Government. Rum production occurs at one private facility. Gross receipts tax revenues are a tax on gross professional services and sales. Debt service payments of principal and interest from these revenue sources for the past three years are as follows:

	Year ending September 30, 2007	2006	2005
	(in thousands)		
Excise rum tax:	48,238	48,209	46,790
Gross receipts tax:	42,220	40,982	38,532

The ability of the Government to meet its loan obligations to the Authority, is dependent upon the collection of tax revenues.

Investment Performance and Agreements

The Authority investments include Aaa rated money market funds and commercial paper. Due to declining interest returns, the Authority entered into three debt service agreements during fiscal year 2002. The terms of the agreements provide a guaranteed return in exchange for the guaranty of Authority debt service reserves. The Authority received $1.6 million in fees upon entering into the agreements and a guaranteed average rate of return of 5% to 6% on investments subject to the agreements.

Contacting the Company

This financial report is designed to provide users with a general overview of the Company's finances. If you have questions about this report or need additional financial information, contact the Authority:

Virgin Islands Public Finance Authority
32 & 33 Kongens Gade, Government Hill
St. Thomas, US Virgin Islands 00802
(340) 714 - 1635

* * * * *

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the United States Virgin Islands)
Statement of Net Assets
September 30, 2007 and 2006

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	$ 30,254,524	$ 30,173,293
Restricted cash and cash equivalents	58,247,057	60,130,763
Receivables, net	1,845,295	1,674,092
Restricted loans receivable - Government of the U.S. Virgin Islands	37,358,759	35,209,753
Investments, at fair value	1,092,814	1,009,825
Prepaid expenses and other assets	854,688	798,871
Total current assets	129,653,137	128,996,597
Noncurrent assets		
Restricted cash and cash equivalents	22,164,308	52,987,920
Restricted investments, at fair value	224,843,225	264,931,607
Restricted loan receivable - Government of the U.S. Virgin Islands	1,049,922,716	1,087,499,592
Bond discounts and issuance costs	6,889,935	7,942,529
Capital assets, net of depreciation	47,186,228	43,805,484
Total noncurrent assets	1,351,006,412	1,457,167,132
Total assets	$ 1,480,659,549	$ 1,586,163,729
LIABILITIES		
Current liabilities		
Accrued expenses and other liabilities	$ 4,795,481	$ 3,746,867
Loans payable related to capital assets	623,212	653,921
Notes payable	2,773,759	3,194,753
Deferred revenue	193,714	193,714
Bonds payable	32,170,000	30,380,000
Interest payable	29,387,057	30,255,763
Total current liabilities	69,943,223	68,425,018
Noncurrent liabilities		
Loans payable related to capital assets	21,391,814	20,064,827
Notes payable	1,401,394	4,393,270
Bonds payable (including a reduction of $11,645,720 and $13,487,257 in 2007 and 2006, respectively, due to a deferred amount on defeased bonds)	1,068,154,280	1,101,132,743
Restricted assets held for the Government of the U.S. Virgin Islands	151,522,897	221,273,840
Deferred revenue	387,430	581,145
Payable from restricted assets	102,693,269	103,945,435
Total non-current liabilities	1,345,551,084	1,451,391,260
Total liabilities	1,415,494,307	1,519,816,278
NET ASSETS		
Invested in capital assets, net of related debt	27,019,701	23,086,736
Restricted	26,858,285	29,941,025
Unrestricted	11,287,256	13,319,690
Total net assets	$ 65,165,242	$ 66,347,451

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the United States Virgin Islands)
Statements of Revenues, Expenses and Changes in Net Assets
Years ended September 30, 2007 and 2006

	2007	2006
OPERATING REVENUES		
Charges for services	$ 13,452,690	$ 19,158,052
Other	1,045,935	2,074,970
Total operating revenues	14,498,625	21,233,022
OPERATING EXPENSES		
General and administrative	11,301,718	13,612,682
Depreciation and amortization	1,633,871	1,743,697
Total operating expenses	12,935,589	15,356,379
Operating income	1,563,036	5,876,643
NONOPERATING REVENUES (EXPENSES)		
Interest income		
Cash, cash equivalents and investments	6,955,063	6,981,820
Loans receivable	59,632,680	60,700,957
Other investment income	193,715	202,903
Amortization of bond discount and issuance costs	(2,002,578)	(2,115,460)
Amortization of deferred amount	(1,841,537)	-
Interest expense	(61,027,419)	(61,639,286)
(Loss) on fixed assets	(7,052)	(1,332)
Contribution to the USVI Government	(1,000,000)	(1,000,000)
Total nonoperating income	902,872	3,129,602
Income before transfers	2,465,908	9,006,245
TRANSFERS		
Payments on behalf of Government of the U.S. Virgin Islands	(3,648,117)	(11,290,020)
Change in net assets	(1,182,209)	(2,283,775)
Total net assets at beginning of fiscal year	66,347,451	68,631,226
Total net assets at ending of fiscal year	$ 65,165,242	$ 66,347,451

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the United States Virgin Islands)
Statements of Cash Flows
Years ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Cash received from customers	$ 13,281,486	$ 18,078,715
Cash paid to suppliers and employees for services	(10,761,738)	(14,147,369)
Other cash receipts	1,045,935	2,074,970
Net cash provided by operating activities	3,565,683	6,006,316
Cash flows from investing activities		
Purchases of investments	(467,099,177)	(343,464,346)
Interest received on cash, cash equivalents and investments	13,684,295	6,693,751
Investment maturities and sales	507,104,570	374,861,431
Net cash provided by investing activities	53,689,688	38,090,836
Cash flows from capital and related financing activities		
Proceeds from long-term debt issuance	-	231,062,151
Net borrowings	1,296,278	4,173,196
Acquisition of property and equipment	(5,021,668)	(4,427,072)
Interest payment on long-term debt related to capital assets	(1,638,109)	(1,097,823)
Principal payments on loans payable related to capital assets	(3,412,870)	(2,261,977)
Net cash (used in) provided by capital and related financing activities	(8,776,369)	227,448,475
Cash flows from non-capital financing activities:		
Contribution to the USVI Government	-	(1,000,000)
Interest paid on non-capital related bonds payable	(60,228,082)	(30,255,763)
Interest collected on loans receivable	59,632,680	60,511,526
Payment of non-capital related bond issuance costs	(421,058)	(8,969,243)
Decrease in loan receivable	35,427,870	28,136,977
Principal payments on non-capital related bonds payable	(33,030,000)	-
Payment to trustee to defeased non-capital related bonds	-	(175,125,167)
Payments on behalf of Government of the U.S. Virgin Islands	(91,950,574)	(146,049,614)
Increase in other non-operating assets	9,464,075	47,967,476
Net cash used in non-capital financing activities	(81,105,089)	(224,783,808)
Net (decrease) increase in cash, cash equivalents and and restricted cash	(32,626,087)	46,761,819
Cash, cash equivalents and restricted cash at beginning of fiscal year	143,291,976	96,530,157
Cash, cash equivalents and restricted cash at end of fiscal year	$ 110,665,889	$ 143,291,976
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 1,563,036	$ 5,876,643
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,633,871	1,743,697
Changes in operating assets and liabilities that increase (decrease) cash		
Receivables	(171,201)	(1,033,982)
Accrued expenses and other liabilities	595,794	(578,266)
Prepaid expenses and other assets	(55,817)	(1,776)
Total adjustments	2,002,647	129,673
Net cash provided by operating activities	$ 3,565,683	$ 6,006,316

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

1. Reporting Entity and Significant Accounting Policies

Reporting Entity

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

General Obligation Bonds

Pursuant to Section 8(b)(ii) of the Revised Organic Act, the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness be in excess of ten (10%) of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. Pursuant to 48 U.S.C. section 1574a (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 1574a.

Debt Limits

On August 23, 1999, the Legislature amended the Virgin Islands Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically 2 V.I.C. section 256, provides that the amount of debt of the Government of the Virgin Islands existing on October 1, 2000 shall be the debt limit of the Government of the Virgin Islands, exclusive of bond principal and interest that may become due. At the end of fiscal year 2007, the Authority was below the Legislature imposed limit. The debt limit shall not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds.

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

Use of Estimates

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

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

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

Statement of Cash Flows
The Authority considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Activities of the Authority
The Authority performs a financial management function for the Government of the Virgin Islands consisting of the following activities:

Operations: Overall investment management and administrative activities of the Authority.

The West Indian Company: Property management activities related to the management of the West Indian Company ("WICO") a wholly-owned subsidiary consisting primarily of servicing cruise ships owned by established shipping lines.

King's Alley Management, Inc.: Property management activities related to Kings Alley Management, Inc., a wholly owned subsidiary, formed on July 22, 2001, consisting primarily of managing the King's Alley Hotel, and a shopping center in Frederiksted, St.Croix.

Receivables
Receivables are recorded at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The adequacy of the allowance for doubtful accounts is evaluated by management based upon past collection experience and customers' financial condition.

Investments
Under GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for Most External Investments Pools, the Authority reports investments at fair value in the statement of net assets and changes in the fair value in the statement of revenues, expenses and changes in net assets.

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

Bonds Payable

Bonds payable managed by the Authority are as follows:

Series 2006 Revenue Bonds: The proceeds of the bonds were issued to: (i) refund a portion of the Authority's Revenue Bonds, Series 1999 A, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund the debt service account, (v) pay certain costs of issuing the Series 2006 Bonds and, (vi) fund a net payment reserve account for a new swap agreement.

Series 2004 A Revenue Bonds: The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix (ii) finance the repairs, renovations and construction of solid waste facilities in the Territory (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the newly created Virgin Islands Waste Management Authority, (v) fund the Series 2004A Senior Lien Debt Service Reserve Subaccount and (vi) pay certain costs of issuing the Series 2004A Bonds.

Series 2003 A Revenue Bonds: The proceeds of the bonds were issued to : (i) repay the Authority's outstanding principal on the Revenue Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund the Debt Service Reserve Accounts in an amount necessary to satisfy debt service reserve requirements, and (iv) pay certain costs of issuing the 2003 Series A Bonds.

Revenue Bonds Series 2002: These bonds were issued to provide financing of certain federal-aid-transportation projects.

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

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

Revenue Bonds Series 1992 A and 1992 B: The Series 1992 A and Series 1992 B bonds were issued to advance refund the previously outstanding Revenue Bonds Series 1989 A and Series 1989 B. The bonds were defeased May 1, 1998, with the proceeds of the issuance of the 1998 Series Revenue & Refunding Bonds ("1998 Series Bonds").

Government Development Revenue Bonds Series 1994 A, 1994 B and 1994 C: These bonds were issued to fund various capital improvements and economic development projects on the island of St. Croix. The bonds were defeased May 1, 1998, with the proceeds of the 1998 Series Bonds.

Transportation Trust 1989 Series Bonds: These bonds were issued to provide funding for the maintenance, improvement, repair and construction of the road and highway system in the U.S. Virgin Islands. These bonds were defeased May 1, 1998 with the proceeds of the 1998 Series Bonds.

During fiscal year 2007, the Authority charged the Government of the Virgin Islands and other entities under the private activity bond program, fees amounting to $1,046,000 ($2,075,000 for 2006) for its investment and bond management services.

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

Payments and Transfers on Behalf of Government
Transfers to the Government of the Virgin Islands include distributions from excess revenues of tax collections, contributions to the US Virgin Islands and interest earned on other funds.

During the year ended September 30, 2007, capital expenditures of $1.2 million, $15.1 million, $31.1 million, $1 million, $4.9 million and $33.2 million were disbursed from the restricted investments related to the 2006 Bonds, 2004 Bonds, 2003 Bonds, 2002 Bonds, 1999 Bonds and 1994 Bonds, respectively. Capital expenditures from the 2006 and 2005 notes were $3.6 million and $135 thousand, respectively. The disbursements from these bonds and notes are reported as a reduction of Restricted Assets held for the Government of the U.S. Virgin Islands and are reflected as payments on behalf of the Government of the Virgin Islands in the cash flows statement.

The interest income generated from restricted cash and investments accounts held by the Authority is reported as an increase in Restricted Assets held for the Government of the U.S. Virgin Islands in the Statement of Net Assets and is reflected in the statement of cash flow as interest income.

Taxes
The Authority is a tax-exempt entity created by statute. The Authority shall not be required to pay any taxes or assessments on any of the property acquired or to be acquired by it, or on any of its operations or activities, or on any income derived from any of its operations or activities, however, prior to June 2003, WICO was required, under a specific bill, to contribute the greater of ten percent of net revenues, or $500,000 to the General Fund of the Government of the Virgin Islands. In June 2003, the Legislature approved Bill No. 25-0038 to amend the annual payment in lieu of taxes to the greater of ten percent of net revenues, as defined or $1,000,000. Such amendment is effective for fiscal year 2003 and thereafter.

Capital Assets
Capital assets are recorded at cost and depreciated using the straight-line method over the estimated useful life of the assets. Estimated useful lives of capital assets are as follows:

	Years
Building and building improvements	5-40
Personal property and equipment	3-25

When assets are retired, the cost and related accumulated depreciation of the property is removed from the accounts and any gain or loss is recognized as non-operating revenue or expense. Expenditures for major renewals and betterments are capitalized, while maintenance and repairs which do not extend the life of the assets are recorded as expenses.

Operating and Nonoperating Revenues
Operating revenues of the Authority include revenues of the operating fund of the Authority, revenues from the West Indian Company complex, and King's Alley Management, Inc. complex. Non-operating revenues consist of interest and dividend income generated from the restricted investments invested in short term investment instruments.

Bond discounts and Issuance Costs
Bond discounts and issuance cost are deferred and amortized over the life of the debt. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges in other assets and are amortized over the term of the related debt.

Intra-account Transfers
Investment earnings not otherwise restricted are transferred between Authority accounts in accordance with Board requests and Legislative acts. These amounts offset and, therefore, are not show in the accompanying financial statements.

Fair Value of Financial Instruments
The Authority uses the following methods and assumptions in estimating its fair value disclosures:

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

Cash and cash equivalents and due to/from the Government of U.S. Virgin Islands, receivables, accounts payable and other accrued liabilities: the carrying amounts reported at cost or amortized cost in the statement of net assets for these instruments which amounts approximate their fair values.

Net Assets
Net assets are reported in three categories: a) invested in capital assets, b) restricted and, c) unrestricted. Liabilities that relate to specific restricted assets which exceed those assets are reported as a reduction of unrestricted net assets. Also, all assets and liabilities of bond reserve accounts are considered to be part of restricted net assets.

New Accounting Pronouncement
Following are statements issued by GASB that are effective in future years. The impact of the adoption of these statements has not been determined by management:

Statement Number		Adoption Required in Fiscal Year
45	Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions	2008
48	Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues	2008
49	Accounting and Financial Reporting for Pollution Remediation obligations	2009
50	Pension Disclosures - an amendment of GASB Statements	2008
51	Accounting and Financial Reporting for Intangible Assets	2010
52	Land and Other Real Estate Held as Investments by Endowments	2009

2. Cash, Cash Equivalents and Investments

Cash and cash equivalents, segregated by category at September 30, 2007 and 2006, are as follows:

2007	Bank Balance	Carrying Amount
Restricted	$ 80,525,552	$ 80,411,365
Unrestricted	32,814,761	30,254,524
	113,340,313	110,665,889

2006	Bank Balance	Carrying Amount
Restricted	$ 126,019,696	$ 113,118,683
Unrestricted	25,429,478	30,173,293
	151,449,174	143,291,976

Restricted cash and cash equivalents represents cash segregated for debt service due under the Authority's debt agreements. At September 30, 2007, restricted cash amounting to $1,848,499 (2006 - $1,820,164) represents cash segregated for debt service under loans payable related to capital assets and is presented as part of net assets restricted in the Statement of Net Assets.

Unrestricted cash and cash equivalents may be used for operational purposes but may not be used for payments of dividends which are restricted by loan covenants.

As of September 30, 2007, $50,570,333, or 45%, of the Authority's deposits in banks were held at Banco Popular de Puerto Rico and $58,247,056 or 52% was held at Bank of New York. At September 30, 2006, $39,949,057, or 28%, of the Authority's deposits in banks were held at Banco Popular de Puerto Rico and $103,342,919, or 72% was held at Bank of New York. Uncollateralized deposits at Banco Popular de Puerto Rico amounted to $52,418,832 in 2007 and $39,548,954 in 2006.

Investments

Investments include investments restricted for specific purposes and investments held in trust. Pursuant to the requirements of the Indenture of Trust, certain assets of the Government are maintained in a reserve account controlled by the Authority, and may be used only for the payment of principal and interest on the 2006 Bond Series, 2004 Bonds Series A, 2003 Bonds Series A, 2002 Bonds Series, 1999 Bonds Series A and the 1998 Bonds Series A, B, C, D & E.

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

Investments in the reserve accounts at September 30, 2007 were as follows:

	2006 Series Bonds	2004 Series A Bonds	2003 Series A Revenue Bonds	2002 Series Revenue Bonds	1999 Series A Revenue Bonds	1998 Bonds Series A, B, C, D & E	Subtotal Bonds
Restricted							
Debt service reserve	$ 3,188,611	$ 9,928,508	$ 16,715,354	$ 2,327,467	$ 26,147,787	$ 71,003,030	$ 129,310,757
Construction Funds	13,330,377	26,912,670	49,889,333	4,753,550	-	-	94,885,930
Project Fund	-	-	-	-	-	-	-
	$ 16,518,988	$ 36,841,178	$ 66,604,687	$ 7,081,017	$ 26,147,787	$ 71,003,030	$ 224,196,687

	2006 Series Notes	2005 Series Notes	Subtotal Notes				Total Bonds and Notes
Restricted							
Debt service reserve	$ -	$ -	$ -				$ 129,310,757
Construction Funds	-	-	-				94,885,930
Project Fund	303,791	342,747	646,538				646,538
	$ 303,791	$ 342,747	$ 646,538	$ -	$ -	$ -	$ 224,843,225

Investments in the reserve accounts at September 30, 2006 were as follows:

	2006 Series Bonds	2004 Series A Bonds	2003 Series A Revenue Bonds	2002 Series Revenue Bonds	1999 Series A Revenue Bonds	1998 Bonds Series A, B, C, D & E	Subtotal Bonds
Restricted							
Debt service reserve	$ 3,327,190	$ 10,006,756	$ 16,759,164	$ 2,370,451	$ 30,095,442	$ 53,349,790	$ 115,908,793
Construction Funds	14,000,000	39,991,521	76,633,810	5,457,266	-	-	136,082,597
Project Fund	-	-	-	-	8,600,900	-	8,600,900
	$ 17,327,190	$ 49,998,277	$ 93,392,974	$ 7,827,717	$ 38,696,342	$ 53,349,790	$ 260,592,290

	2006 Series Notes	2005 Series Notes	Subtotal Notes				Total Bonds and Notes
Restricted							
Debt service reserve	$ -	$ -	$ -				$ 115,908,793
Construction Funds	-	-	-				136,082,597
Project Fund	3,881,000	458,317	4,339,317				12,940,217
	$ 3,881,000	$ 458,317	$ 4,339,317	$ -	$ -	$ -	$ 264,931,607

Restricted investments, categorized by investment type, and weighted average maturity, for 2007 and 2006, are as follows:

	2007		**2006**	
	Fair Value	**Weighted Average Maturity (Years)**	**Fair Value**	**Weighted Average Maturity (Years)**
Money Market Funds	141,633,652		68,918,849	
Portfolio Investments:				
Commercial Paper	66,685,573	.02	196,012,758	.19
US government agencies notes	16,524,000	.00	-	
Total fair value	83,209,573		196,012,758	
Portfolio weighted average maturity		.00		.02
Total investments	$ 224,843,225		$ 264,931,607	

During fiscal year 2006, the Authority recognized $10 thousand on gain on sale of investment securities. This amount is presented as part of other investment income in the accompanying Statement of Revenues, Expenses and Changes in Net Assets.

Unrestricted investments, categorized by investment type, for 2007 and 2006, are as follows:

	2007	2006
Investment (at fair value)		
US Treasury Securities	$ 169,852	$ 549,364
Federal National Mortgage Association (FNMA)	56,746	203,547
Federal Home Mortgage Corporation (FHLMC)	23,362	53,626
Corporate Bonds	87,723	203,288
Mutual funds	705,615	-
Equity securities	49,516	-
Total	$ 1,092,814	$ 1,009,825

Interest Rate Risk. Interest rate risk represents the exposure to fair market value losses arising from increasing interest rates. The Authority does not have a formal investment policy that limits investment maturities as a means of managing such exposure. As a means of keeping the interest rate low, all investments held by the Authority are short term in nature.

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

At September 30, 2007, the Authority's investment in money market funds were rated AAAm by Standard & Poor's, and Aaa by Moody's Investor Service; and the Authority's investments in commercial paper were rated A-1 or A-1+ by Standard and Poor's, P-1 by Moody's Investor Service, and F1 by Fitch.

At September 30, 2006, the Authority's investment in money market funds were rated AAAm by Standard & Poor's, and Aaa by Moody's Investor Service; and the Authority's investments in commercial paper were rated A-1 or A-1+ by Standard and Poor's, P-1 by Moody's Investor Service, and F1 by Fitch.

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in one issuer. At September 30, 2007, more than 5% of the Authority's investments were invested in: AIM Short Term Investment Co. Treasury No. 2 (5.92%), Goldman Financial Square Money Market No. 474 (44.14%), Bear Stearns Money Market (8.15%), Fidelity Treasury Money Market (20.55%). Federal National Mortgage Association Notes (5.84%), and Morgan Stanley DW Money Market (14.61%).

At September 30, 2006, more than 5% of the Authority's investments were invested in: AIM Short Term Investment Co. Treasury No. 2 (5.93%), American General Fin Corp. (4.79%), General Electric Capital Corporation Commercial Paper (29.32%), Goldman Financial Square Money Market No. 474 (16.43%), Bear Stearns (8.62%), Natexis Banques Populaires (6.19%), Morgan Stanley DW (15.43%) and Toyota (5.75%).

Custodial Credit Risk. The Authority does not have a custodial credit risk policy. This is the risk that the Government will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2007 and 2006, all investments of the Authority were held in the name of The Bank of New York Trust Company, N.A., as Trustee for the Authority. Investments in the trust accounts are limited to the investments permitted by the trust indenture.

3. Loans Receivable

The Authority loaned the proceeds of the Series 2006 Notes, Series 2006 Revenue Bonds, Series 2005 Notes, 2003 Revenue Bonds Series A and the 1999 Bonds Series A to the Government of the Virgin Islands. The loan, which is secured with pledged gross receipts taxes collected pursuant to Title 3, Section 43 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable (see Note 5).

The Authority loaned the proceeds of the 2004 Bonds Series A and the 1998 Bond Series A, B, C, D and E to the Government of the Virgin Islands. The loans, which are secured with pledged matching fund revenues pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, bear the same interest rates, maturities, and repayment terms as the bonds payable (see Note 5).

The Authority loaned the proceeds of the 2002 Revenue Bonds to the Government. The loan, which is secured with US Department of Transportation, Federal Highway Administration reimbursement revenues, bear the same interest rate, maturities, and repayment terms as the bonds payable (see Note 5).

4. Capital Assets

Capital assets at September 30, 2007 and 2006 and changes during both fiscal years follows:

	Balance 9/30/06	Additions Net of transfers	Disposal	Balance 9/30/07
Land	$ 4,980,006	-		$ 4,980,006
Construction in progress	5,598,818	1,268,404		6,867,222
Buildings and building improvements	44,021,433	3,229,852		47,251,285
Personal property and equipment	2,319,718	523,412	(8,410)	2,834,720
Total	56,919,975	5,021,668	(8,410)	61,933,233
Less accumulated depreciation	(13,114,491)	(1,633,872)	1,358	(14,747,005)
Total Capital Assets, net	$ 43,805,484	3,387,796	(7,052)	47,186,228

	Balance 9/30/05	Additions Net of transfers	Disposal	Balance 9/30/06
Land	$ 4,980,006			$ 4,980,006
Construction in progress	1,756,986	3,841,832		5,598,818
Buildings and building improvements	43,520,056	501,377		44,021,433
Personal property and equipment	2,238,544	81,174	-	2,319,718
Total	52,495,592	4,424,383	-	56,919,975
Less accumulated depreciation	(11,372,153)	(1,742,338)	-	(13,114,491)
Total Capital Assets, net	$ 41,123,439	2,682,045	$ -	$ 43,805,484

The Authority periodically evaluates whether there have been impairment of capital assets. No impairment was recorded as of September 30, 2007 and 2006.

5. Bonds Payable

A summary of bond activity (gross) for the period ended September 30, 2007 and 2006 as follows (in thousands):

	1998 Bonds	Series 1999 A Revenue Bonds	2002 Series Revenue Bonds	2003 Series A Revenue Bonds	2004 Series A Bonds	Series 2006 Revenue Bonds	Total
Balance at 9/30/05	$ 445,025	$ 273,565	$ 12,940	$ 265,145	$ 91,705	$ -	$ 1,088,380
Bond Issuance	-	-	-	-	-	219,490	219,490
Defeasance payment	-	(162,870)	- -	-	-	-	(162,870)
Principal payments						-	-
Balance at 9/30/06	445,025	110,695	12,940	265,145	91,705	219,490	1,145,000
Bond Issuance	-	-	-	-	-	-	-
Principal payments	(15,620)	(5,285)	(6,155)	(2,990)	(2,980)	-	(33,030)
Balance at 9/30/07	$ 429,405	$ 105,410	$ 6,785	$ 262,155	$ 88,725	$ 219,490	$ 1,111,970

Bonds payable at September 30, 2007 are comprised of the following (in thousands):

	2007	2006
2006 Series Revenue Bonds		
Interest at 3.50% to 4.25%	$ 219,490	$ 219,490
2004 Series A Revenue Bonds		
Interest at 4.00% to 5.25%	88,725	91,705
2003 Series A Revenue Bonds		
Interest at 4.00% to 5.25%	262,155	265,145
2002 Series Revenue Bonds		
Interest at 2.50% to 5.00%	6,785	12,940
1999 Series A Revenue Bonds		
Interest at 4.20% to 6.50%	105,410	110,695
1998 Series A, B, C, D and E Revenue &		
Refunding Bonds Interest at 5.50% to 7.11%	429,405	445,025
Total Bonds payable	1,111,970	1,145,000
Less: Current portion	(32,170)	(30,380)
Deferred amount on defeased bonds	(11,646)	(13,487)
Long-term portion of bonds payable	$ 1,068,154	$ 1,101,133

On September 28, 2006 the Authority issued the 2006 Series Bonds, the proceeds of which amounted to $219,490,000. These bonds are secured by a pledge of the Trust estate, which includes certain funds established under the original Indenture, the Seventh Supplemental Indenture and the 2006 Gross Receipts Taxes Loan Note, Series issued by the Government. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the Bonds**.** The bonds are limited special obligations of the Authority. The bonds bear interest at 3.50% to 5.00% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) refund a portion of the Authority's Revenue Bonds, Series 1999 A, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund the Debt Service Reserve Account, (v) pay certain costs of issuing the Series 2006 Bonds and (vi) fund a net payment reserve account for a new swap agreement. The 2006 Series Bonds maturing on or before October 1, 2016 are not subject to optional redemption.

The advance refunding of the 2024 and 2029 maturities of the 1999 Series A Bonds was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40.8 million and an economic gain of approximately $25.6 million.

The proceeds of the 2006 Series Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2024 and 2029 maturities of the 1999 Series A Bonds. Approximately $175,125,168 in funds was deposited into the Escrow Fund accounts. At September 30, 2007, $162,870,000 of defeased bonds were outstanding.

On December 1, 2004 Authority issued the 2004 Series A Bonds, the proceeds of which amounted to $94,000,000. The Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2024. The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix (ii) finance the repairs, renovations and construction of solid waste facilities in the Territory (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the newly created Virgin Islands Waste Management Authority, (v) fund the Series 2004A Senior Lien Debt Service Reserve Subaccount and (vi) pay certain costs of issuing the Series 2004A Bonds. The Series A Bonds are not subject to optional redemption prior to October 1, 2014.

On December 17, 2003, the Authority issued the Series 2003 A Revenue Bonds the proceeds of which amounted to $268,020,000. These bonds are secured by a pledge of the Trust estate, which includes certain funds established under the original Indenture, the Fourth Supplemental Indenture and the 2003 Gross Receipts Taxes Loan Note, Series A issued by the Government. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2022. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the Bonds. The bonds are limited special obligations of the Authority. The bonds were issued to: (i) repay the Authority's outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund the Debt Service Reserve Accounts, and (iv) pay certain costs of issuing the Series 2003A Bonds. The 2003 Series A Bonds are not subject to optional redemptions prior to October 1, 2014.

On February 28, 2003, the Authority entered into a swaption contract that provided the Authority with an up-front payment of $8.3 million. The swaption gave the counterparty the option to make the Authority enter into a pay-fixed, receive-variable interest rate swap. If the option was exercised, the Authority would then expect to issue variable-rate refunding bonds. The Authority has outstanding $243,985,000 Series of 1999A Bonds with maturities from 2011 to 2029. The 1999A Bonds are callable by the Authority on October 1, 2010 at 101%. Having been advised by its underwriters and financial advisor that there were no net present value savings available to it by issuing conventional advance refunding bonds, the Authority sold a LIBOR based swaption to Lehman Brother Special Financing, Inc. on the 2024 and 2029 maturities, totaling $162,870,000.

Lehman purchased the swaption for $8,367,000 and it is exercisable on July 1, 2010 only. As part of the 2006 Series Bonds, the swap option was terminated and the authority made a payment to Lehman Brothers as part of this termination for $26,910,000.

On October 1, 2002, the Authority issued the Series 2002 Revenue Bonds ("Garvey Bonds"), the proceeds of which amounted to $20,845,000. The bonds are special, limited obligations, secured solely by the pledge and assignment of the Government's security interest in Federal Highway Reimbursement Revenues. The bonds were issued to (i) fund construction costs related to renovation and construction of two sea docks, (ii) fund the Debt Service Reserve Accounts, and (iii) pay certain costs of issuing the bonds. The Series 2002 Bonds are not subject to redemption prior to maturity.

On November 1, 1999, the Authority issued the 1999 Series A Bonds, the proceeds of which amounted to $299,880,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) pay certain working capital obligations of the Government, (ii) repay the Government's outstanding 1999 tax and revenue anticipation note, (iii) fund the Series Debt Service Reserve Accounts and (iv) pay certain costs of issuing the bonds. On September 28, 2006, the Authority advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2024 and 2029 totaling $162,870,000.

On May 1, 1998 the Authority issued the 1998 Series A, B, C, D, and E Bonds, which proceeds amounted to $541,820,000. These bonds are not guaranteed by the Government, however, the Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 1998 Series Bonds. These bonds were issued for the purpose of, among others, the advance refunding of previously issued bonds. The advance refunding of these bond series was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40 million and an economic gain of approximately $19 million.

The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993 and Series 1994 Bonds. Approximately $304,520,000 in funds was deposited into the Escrow Fund accounts. At September 30, 2007, $150,460,000 of defeased bonds were outstanding. The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest on the 1998 Revenue Anticipation Note. The balance of the 1998 Series D Bond financed approximately $ 11,600,000 in additional working capital. The 1998 Series E Bonds were designated to fund the construction of certain capital projects.

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, 2007, $138,965,000 of defeased bonds was outstanding.

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

Pledged Funds
The Government has pledged and assigned Federal Highway Reimbursement Revenues to the timely payment of the principal and interest on the 2002 Series Revenue Bonds.

The Government has pledged Gross Receipts Taxes subject to the annual moderate income housing fund deposit, as well as any prior lien or pledge, to the timely payment of the principal and interest on the Series 2006 Notes, 2006 Revenue Bonds, Series 2005 Notes, the Series 2003 A Bonds and the 1999 Series A Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

The Government has pledged the Matching Fund Revenues, as described below, to the timely payment of principal and interest on the 2004 Series A Bonds and the 1998 Series A, B, C, D and E Bonds. Thus, all amounts to be received by the Government from federal excise tax, mostly for rum, are deposited directly in a trust account from which the 2004 and 1998 Bonds are paid in accordance with the Indenture of Trust.

The Secretary of the United States Department of Treasury makes annually, certain transfers to the Government of substantially all excise taxes imposed and collected under the internal revenue laws of the United States in any fiscal year on certain products produced in the Virgin Islands (primarily rum), and exported to the United States from the Virgin Islands. The amount required to be remitted to the Government by the Secretary of the Treasury is an amount no greater than the total amount of local revenues (primarily taxes) collected by the Government in each fiscal year. The term "matching fund revenues" is used to denote these payments.

Estimated prepayments of matching fund revenues are made to the Government prior to the beginning of each fiscal year, subject to adjustment for the amount of local revenue actually collected by the United States Department of Treasury during such year. Such adjustments are made to the estimated prepayments for a subsequent fiscal year.

Interest on the 2006 Series bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2006 Series bonds. The principal and interest payments on October 1 are funded by Gross Receipts taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts taxes.

Interest on the 2004 Series A bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2004 Series A bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the 2003 Series A bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2003 Series A Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest on the 2002 bonds is payable semi-annually on March 1 and September 1, and the principal is payable annually on September 1.

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

Interest on the 1998 bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 1998 Series bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest expense related to bonds payable during the period ended September 30, 2007 and 2006 was as follows (in thousand):

	2007	**2006**
2006 Series Revenue Bonds	$ 10,680	$ -
2004 Series Revenue Bonds	4,583	4,732
2003 Series A Revenue Bonds	13,066	13,186
2002 Series Revenue Bonds	497	647
1999 Series Bonds	6,538	17,070
1998 Revenue & Refunding Bonds	23,995	24,877
	59,359	60,512
Other interest expense mainly related to loans and notes payable outstanding	1,668	1,127
Total	$ 61,027	$ 61,639

Maturity dates and debt service requirements as of September 30, 2007 for the Series 2006 Revenue Bonds is as follows (in thousands):

		Series 2006	
October 1	**Principal**	**Interest**	**Total**
2007	$ 505	$ 5,296	$ 5,801
2008	1,490	10,574	12,064
2009	1,530	10,522	12,052
2010	1,580	10,460	12,040
2011	2,705	10,397	13,102
2012-2016	15,090	49,857	64,947
2017-2021	42,620	45,348	87,968
2022-2026	90,945	28,910	119,855
2027-2029	63,025	5,888	68,913
	$ 219,490	$ 177,252	$ 396,742

Maturity dates and debt service requirements as of September 30, 2007 for the Series 2004 Revenue Bonds is as follows (in thousands):

	Series 2004 A		
October 1	**Principal**	**Interest**	**Total**
2007	$ 3,130	$ 2,291	$ 5,421
2008	3,285	4,427	7,712
2009	3,450	4,263	7,713
2010	3,625	4,090	7,715
2011	3,805	3,909	7,714
2012-2016	22,085	16,481	38,566
2017-2021	28,440	10,120	38,560
2022-2024	20,905	2,233	23,138
	$ 88,725	$ 47,814	$ 136,539

Maturity dates and debt service requirements as of September 30, 2007 for the Series 2003 Revenue Bonds is as follows (in thousands):

	Series 2003 A		
October 1	**Principal**	**Interest**	**Total**
2007	$ 3,110	$ 6,533	$ 9,643
2008	3,230	12,942	16,172
2009	3,360	12,813	16,173
2010	3,495	12,678	16,173
2011	3,635	12,539	16,174
2012-2016	21,110	59,767	80,877
2017-2021	27,195	53,684	80,879
2022-2026	34,945	45,930	80,875
2027-2031	90,430	35,159	125,589
2032-2033	71,645	5,417	77,062
	$ 262,155	$ 257,462	$ 519,617

Maturity dates and debt service requirements as of September 30, 2007 for the Series 2002 Revenue Bonds is as follows (in thousands):

	Series 2002 Garvey Revenue Bonds		
September 1	**Principal**	**Interest**	**Total**
2008	$ 3,310	$ 339	$ 3,649
2009	3,475	174	3,649
	-	-	-
	$ 6,785	$ 513	$ 7,298

Maturity dates and debt service requirements as of September 30, 2007 for the Series 1999 A Revenue Bonds is as follows (in thousands):

	Series 1999 A		
October 1	**Principal**	**Interest**	**Total**
2007	$ 5,585	$ 3,268	$ 8,853
2008	5,900	6,224	12,124
2009	6,230	5,892	12,122
2010	6,580	5,541	12,121
2011	6,950	5,171	12,121
2012-2016	41,990	18,608	60,598
2017-2019	32,175	4,187	36,362
	$ 105,410	$ 48,891	$ 154,301

Maturity dates and debt service requirements as of September 30, 2007 for the 1998 bonds are as follows (in thousands):

	Series 1998 A		Series C		Series 1998 D	
October 1	**Principal**	**Interest**	**Principal**	**Interest**	**Principal**	**Interest**
2007	$ -	$ 7,910	$ 11,780	$ 666	$ 4,750	$ 290
2008	-	15,821	12,455	685	4,915	295
2009	13,135	15,821	-	-	-	-
2010	13,835	15,138	-	-	-	-
2011	14,580	14,419	-	-	-	-
2012-2016	86,085	59,343	-	-	-	-
2017-2021	113,335	32,852	-	-	-	-
2022-2026	48,105	7,402	-	-	-	-
	$ 289,075	$ 168,706	$ 24,235	$ 1,351	$ 9,665	$ 585

	Series 1998 E		Total 1998 Bonds		
October 1	**Principal**	**Interest**	**Principal**	**Interest**	**Total**
2007	$ -	$ 3,130	$ 16,530	$ 11,996	$ 28,526
2008	-	6,261	17,370	23,062	40,432
2009	5,345	6,261	18,480	22,082	40,562
2010	5,665	5,954	19,500	21,092	40,592
2011	6,000	5,628	20,580	20,047	40,627
2012-2016	35,510	22,530	121,595	81,873	203,468
2017-2021	45,730	10,910	159,065	43,762	202,827
2022-2026	8,180	491	56,285	7,893	64,178
	$ 106,430	$ 61,165	$ 429,405	$ 231,807	$ 661,212

Total debt service payments for all bonds payable are summarized below (in thousands):

	Principal	Interest	Total
2007	$ 28,860	$ 29,384	$ 58,244
2008	34,585	57,568	92,153
2009	36,525	55,746	92,271
2010	34,780	53,861	88,641
2011	37,675	52,063	89,738
2012-2016	221,870	226,586	448,456
2017-2021	289,495	157,101	446,596
2022-2026	203,080	84,966	288,046
2027-2031	153,455	41,047	194,502
2032-2033	71,645	5,417	77,062
	$ 1,111,970	$ 763,739	$ 1,875,709

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

2006 Series	Price
October 1, 2016 and thereafter	100%

The 2004 Series A Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

2004 Series A	Price
October 1, 2014 and thereafter	100%

The 2003 Series A Bonds are not subject to optional redemption prior to October 1, 2014. The Series 2002 Revenue Bonds are not subject to redemption prior to maturity. The Series 1999 A Bonds are not subject to optional redemption prior to October 1, 2010. The Authority may redeem these bonds at the respective redemption prices, expressed as a percentage of the principal amount redeemed as follows:

2003 Series A	Price
October 1, 2014 and thereafter	100%

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

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

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

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

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

6. Basis Swap

In September 2006, the Authority entered into a Basis Swap in order to offset interest expense in connection with the Series 2006 Virgin Islands Public Finance Authority Revenue Bonds ("Series 2006 Bonds").

Terms. The bonds and the related Basis Swap agreement mature on October 1, 2029, and the swap's notional amount of $219,490,000 match the Series 2006 fixed rate bonds. Beginning in fiscal year 2007, the notional value of the swap and the principal amount of the associated debt will decline. Under the Basis Swap agreement, the Authority pays the counterparty a variable payment based on The Bond Market Association Municipal Swap Index ("BMA") and receives a variable payment computed as 67.03% of the 10-year London Interbank Offered Rate ("LIBOR").

Fair value. The Basis Swap had a negative fair value of $1,669,371 and $2,945,005 as of September 30, 2007 and 2006, respectively. The fair value was calculated using the zero coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each further net settlement on the swap.

Credit risk. As of September 30, 2007 and 2006, the Authority was not exposed to credit risk because the Basis Swap had a negative fair value. However, should interest rates change and the fair value of the Basis Swap becomes positive, the Authority would be exposed to credit risk in the amount of the derivative's fair value. The Basis Swap counterparty was rated Aa2 by Moody's and AA+ by Standard & Poor's as of September 30, 2007 and 2006, respectively. To mitigate credit risk, if the counterparty's credit quality falls at or below Baa1 by Moody's or BBB+ by Standard & Poor's, the fair value of the Basis Swap will be fully collateralized by the counterparty with U.S. government securities and would be posted with a third-party custodian. The Authority's security obligations are secured by the Financial Guaranty Insurance Company.

Basis Risk. The Basis Swap exposes the Authority to basis risk should the relationship between LIBOR and BMA converge, changing the fixed expense on the bonds. The effect of this difference in basis is indicated by the difference between BMA and 67.03% of 10-year LIBOR. If a change occurs that results in the rates' moving to convergence, the expected savings may not be realized. As of September 30, 2007 and 2006, the BMA rate was 3.84% and 3.74%, respectively, whereas 67.03% of 10-year LIBOR was 3.46%.

Termination risk. The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for that payment.

Refer to subsequent event note on page 33.

7. Long-Term Loans and Notes

Long-term loans and notes outstanding were as follows:

	Loans Outstanding 9/30/2005	(in thousands) New Issuances	Debt Payments	Loans Outstanding 9/30/2006	(in thousands) New Issuances	Debt Payments	Loans Outstanding 9/30/2007
2006 VIFD Note	-	4,000		4,000		(1,266)	2,734
2005 VIPD Note	5,850	-	(2,262)	3,588		(2,147)	1,441
WICO	20,546	1,025	(852)	20,719	1,780	(484)	22,015
Total	26,396	5,025	(3,114)	28,307	1,780	(3,897)	26,190

On September 7, 2006, the Authority issued the Subordinate Lien Revenue Notes, Series 2006 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $4,000,000 (the "Series 2006 Notes"). The Series 2006 Notes accrue interest monthly at a rate of 4% for 36 months. The proceeds of the Series 2006 Notes were loaned to the Government of the Virgin Islands under the same terms, for the purposes of (i) financing the acquisition of fire fighting , fire suppression and fire safety equipment & training and renovations & repairs to fire stations territory-wide, and (ii) paying certain costs of issuing the Series 2006 Notes.

On September 7, 2005, the Authority issued the Subordinate Lien Revenue Notes, Series 2005 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $6,350,000 (the "Series 2005 Notes"). The Series 2005 Notes accrue interest monthly at a rate of 4% for 36 months. The proceeds of the Series 2005 Notes were loaned to the Government of the Virgin Islands under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the Series 2005 Notes. On October 19, 2005 and September 22, 2005, the Authority made prepayments on the loan balance in the amount of $200,000 and $500,000, respectively from unexpended loan proceeds.

In November 2002, the Company consolidated and refinanced its notes payable and obtained $2.0 million dollars in additional financing to fund infrastructure developments. The total amount of the consolidated and refinanced debt amounted to $22,500,000 at a fixed rate of 4.5% for the first four years of the twenty-year term of the loan, until November 20, 2006. On June 6, 2006, the Company refinanced the outstanding loan back to the maximum of $22,500,000, at an effective interest rate of of 6.20% per annum, to be effective on November 20, 2006. This refinancing created additional working capital of approximately $2.7 million dollars which is being used to upgrade the pier for the Freedom class of mega cruise ships. Subsequently, the Company will have the option (in each instance not to be exercised more than once every two years) to fix the interest rate at one of the following three options: a) prime rate plus 75 basis points, b) 1 year-Libor plus 200 basis points, or c) 3-year Treasury notes plus 125 basis points. The loan will be repaid in 240 consecutive monthly installments of $163,804 (representing principal and interest) and a final payment of the outstanding principal balance plus any unpaid interest accrued to the date of the final payment. The loan may be prepaid, in whole or in part, at any time without penalty.

Future minimum payments of principal on these notes for the five years subsequent to September 30, 2007 and thereafter are as follows:

	Series 2006 Note	WICO Note	Series 2005 Note	Total
2008	1,332,271	623,212	1,441,488	3,396,971
2009	1,401,394	662,969	-	2,064,363
2010		705,261		705,261
2011		750,251		750,251
2012		798,112		798,112
Thereafter		18,475,221		18,475,221
	2,733,665	22,015,026	1,441,488	26,190,179
Less current portion	1,332,271	623,212	1,441,488	3,396,971
Total	1,401,394	21,391,814	-	22,793,208

The Authority has pledged WICO revenues to the timely payment of principal and interest of the loan. Interest paid during the period ended September 30, 2007 amounted to $1.4 million ($908 thousand in 2006 for WICO).

8. Commitments

Future Minimum Lease Payments

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

2008	$ 55,000
2009	55,000
2010	64,374
2011	70,000
2012-2016	306,250
Total future minimum payments	$ 550,624

9. Contingencies

The Authority has a loan receivable amounting to approximately $1.087 billion ($1.123 billion in 2006) from the Government (see Note 3). The principal and interest to be paid by the Government to the Authority on the loans receivable is mainly derived from excise taxes on exported rum received by the Government and gross receipts taxes, as more fully described in Note 6 under

Pledged Funds. The principal and interest is subsequently passed-through for payment of the 2006, 2004, 2003, 2002, 1999 and 1998 Bonds and the Series 2006 and 2005 Notes.

The Government maintains a program, established pursuant to law, in which it provides a subsidy to stabilize the cost of molasses to the only Virgin Islands rum producer to ensure the competitive pricing of rum produced in the Virgin Islands. The effect of the molasses payments is to maintain the competitive position of the Virgin Islands rum producer relative to the rum producers in other countries in which local molasses supplies are readily available. The molasses subsidy is administered by the Commissioner of Finance through the establishment of a legislatively mandated Molasses Subsidy Fund. In the event of a deficiency in the Molasses Subsidy Fund, the Commissioner of Finance could seek legislative appropriation of additional funds, as required, from the Legislature of the Virgin Islands. The Legislature, however, is not obligated to appropriate such amounts.

Notwithstanding the Government's past financial difficulties, the Legislature of the Virgin Islands has not yet waived on or reduced the Molasses subsidy. If such an event should occur, the rum producer could experience a decrease in its operations, and therefore result in a reduction of the federal excise taxes returned to the Government by the United States Government. The collectibility of the loans receivable from the Government is highly dependent on the ability of the government in collecting these taxes.

The Authority is managing the operations related to King's Alley Hotel through King's Alley Management, Inc., a wholly-owned subsidiary. The hotel was received in foreclosure by Marshall's sale, upon default of the loan guarantee given by the Authority to the developer of the property. In December 2003, the Authority relinquished possession of the King's Alley Walk to the Inglovstad Family Trust. Legal title of the King's Alley Hotel, remains with King's Alley Management Inc.

The Series 2002 Bonds are secured by pledged revenues under the Federal Highway Reimbursement Program under the Transportation Equity Act for the 21st Century (TEA-21) which was scheduled to expire on September 30, 2003. On October 1, 2003, President Bush signed a 5 month extension of the Act to fund transportation activities through February 29, 2004 and a second extension was granted until May 31, 2005. On August 10, 2005 The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was enacted for a 5 year period expiring on September 30, 2009.

10. Concentration of Risk

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

11. Pension Plan

Substantially all of the Authority's employees are covered by the Employee Retirement System of the Government of the U.S. Virgin Islands (the "System"), a cost sharing multiple-employer defined benefit pension plan. The System is a public employee retirement plan sponsored by the Government of the U.S. Virgin Islands that was created by Act No. 479, approved on June 24, 1959. The System became operative on October 1, 1959, at which date contributions by employees and the Government commenced. Substantially all full-time employees of the Government and its related agencies are covered by the System.

The System provides for retirement, death and disability benefits for employees and their dependents. The administrator of the System is responsible for its proper operation, subject to orders, resolutions and directives of a Board of Trustees. The governor of the U.S. Virgin Islands, with the approval of the Legislature, could change the required contributions from the employers and employees. Although the Government has not expressed any intent to terminate the Plan, it may do so at any time. In the event of termination of the Plan, the rights of all affected participants and beneficiaries to whom benefits have accrued under the Plan shall be non-forfeitable to the extent funded.

Government and members contributions are set by statute. The Government's required contribution is 14.5%. Required member contributions are 8% of the annual salary for regular employees, 9% for senators and 10% for certain employees covered by Act 5226. The Government's contributions, together with the members' contributions and the income of the System should theoretically be sufficient to provide adequate actuarially determined reserves to cover the payment of the annuities and benefits provided by the System. The latest actuarial valuation as of September 30, 2003, indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the System on an actuarial reserve, as required by law. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained from the System's Administrator. The Authority's contribution to the System is 14.5% of each employee's regular salary. The Authority's contributions for the years ended September 30, 2007, 2006 and 2005 was $61, $58 and $46 thousand, respectively, which represented the Authority's required contribution for that period.

12. Subsequent Events

On January 13, 2008, the Board approved approximately $108 million dollars in Private Activity Bonds for Hovensa. These bonds will be issued utilizing the 2007 and 2008 annual tax exempt cap for the Authority.

Effectively on February 8, 2008, the Authority and UBS mutually agreed to terminate a Basis Swap entered into on September 19, 2007 and to release and discharge each other from their respective obligations under this SWAP. The decision was on the basis of expected cash flows from this Swap was not as originally expected.

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

Exhibit I

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

Statement of Net Assets

September 30, 2007

Description	Operating	The West Indian Company	King's Alley Management Inc.	Total From Activities	2006 Series Revenue Bonds	2006 Series Notes	2005 Series Notes	2004 Series A Revenue Bonds	2003 Series A Revenue Bonds	2002 Garvey Bonds	Swap Option Agreement	1999 Series A Revenue Bonds	1998 Series Revenue & Refunding Series Bonds	Bonds Series 1992 A and Series 1992 B	Series 1994 A Series 1994 B and Series 1994 C	Transportation Trust 1989 Series Bonds	Y2K	**Total From Bond and Investment Management**	**Total**
ASSETS																			
Current Assets:																			
Cash and cash equivalents	$ 24,091,764	$ 5,580,312	$ 582,448	$ 30,254,524	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 30,254,524
Restricted cash and cash equivalents	-	-	-		5,800,756	-	-	5,421,669	9,643,238	-	-	8,853,838	28,527,556	-	-	-	-	58,247,057	58,247,057
Receivables, net	78,772	1,689,831	76,692	1,845,295	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,845,295
Restricted loan receivable from the Government of the U.S. Virgin Islands	-	-	-	-	1,490,000	1,332,271	1,441,488	3,285,000	3,230,000	3,310,000	-	5,900,000	17,370,000	-	-	-	-	37,358,759	37,358,759
Investments at fair value	-	1,092,814	-	1,092,814	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,092,814
Prepaid expenses and other assets	-	854,688	-	854,688	-	-	-	-	-	-	-	-	-	-	-	-	-	-	854,688
Total current assets	24,170,536	9,217,645.00	659,140	34,047,321	7,290,756	1,332,271	1,441,488	8,706,669	12,873,238	3,310,000	-	14,753,838	45,897,556	-	-	-	-	95,605,816	129,653,137
Noncurrent assets:																			
Restricted cash and cash equivalents	-	1,848,499	-	1,848,499	-	-	-	-	6,057,118	-	5,402,092	-	696,977	5,157,579	796	2,331,639	669,608	20,315,809	22,164,308
Restricted Investments	-	-	-	-	16,518,988	303,791	342,747	36,841,178	66,604,687	7,081,017	-	26,147,786	71,003,031	-	-	-	-	224,843,225	224,843,225
Restricted loan receivable from the Government of the U.S. Virgin Islands	-	-	-	-	217,495,000	1,401,394	-	82,310,000	255,815,000	3,471,322	-	93,925,000	395,505,000	-	-	-	-	1,049,922,716	1,049,922,716
Bond discount & issuance costs	-	347,093	-	347,093	-	-	-	-	-	31,107	-	4,023,986	2,487,749	-	-	-	-	6,542,842	6,889,935
Capital assets:																			
Land and improvements	-	4,980,006	-	4,980,006	-	-	-	-	-	-	-	-	-	-	-	-	-	-	4,980,006
Construction in progress	-	1,770,433	5,096,789	6,867,222	-	-	-	-	-	-	-	-	-	-	-	-	-	-	6,867,222
Buildings and building improvements	-	42,482,976	4,768,309	47,251,285	-	-	-	-	-	-	-	-	-	-	-	-	-	-	47,251,285
Personal Property and equipment	-	2,716,440	118,280	2,834,720	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,834,720
Less: accumulated depreciation	-	(13,522,563)	(1,224,442)	(14,747,005)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(14,747,005)
Total noncurrent assets	-	40,622,884	8,758,936	49,381,820	234,013,988	1,705,185	342,747	119,151,178	328,476,805	10,583,446	5,402,092	124,096,772	469,692,757	5,157,579	796	2,331,639	669,608	1,301,624,592	1,351,006,412
Total assets	24,170,536	$ 49,840,529	9,418,076	$ 83,429,141	241,304,744	$ 3,037,456	$ 1,784,235	$ 127,857,847	$ 341,350,043	$ 13,893,446	$ 5,402,092	$ 138,850,610	$ 515,590,313	$ 5,157,579	$ 796	$ 2,331,639	$ 669,608	$ 1,397,230,408	$ 1,480,659,549
LIABILITIES																			
Current Liabilities:																			
Accounts payable and accrued expenses	$ 969,598	$ 3,801,875	$ 24,008	$ 4,795,481	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,795,481
Loans payable related to capital assets	-	623,212	-	623,212	-	-	-	-	-	-	-	-	-	-	-	-	-	-	623,212
Notes payable	-	-	-	-	-	1,332,271	1,441,488	-	-	-	-	0	0	-	-	-	-	2,773,759	2,773,759
Deferred Revenue	-	-	-	-	-	-	-	-	-	-	-	105,306	88,408	-	-	-	-	193,714	193,714
Bonds payable	-	-	-	-	505,000	-	-	3,130,000	3,110,000	3,310,000	-	5,585,000	16,530,000	-	-	-	-	32,170,000	32,170,000
Interest payable	-	-	-	-	5,295,756	-	-	2,291,669	6,533,238	-	-	3,268,838	11,997,556	-	-	-	-	29,387,057	29,387,057
Due to (from) other PFA funds	(423,227)	-	747,320	324,093	-	-	-	-	-	-	-	-	-	(12,842)	(324,093)	12,842	-	(324,093)	-
Total current liabilities	546,371	4,425,087	771,328	5,742,786	5,800,756	1,332,271	1,441,488	5,421,669	9,643,238	3,310,000	-	8,959,144	28,615,964	(12,842)	(324,093)	12,842	-	64,200,437	69,943,223
Noncurrent liabilitites																			
Loans payable related to capital assets	-	21,391,814	-	21,391,814		-	-	-	-	-	-	-	-	-	-	-	-	-	21,391,814
Notes payable	-	-	-	-	-	1,401,394	-	-		-	-	-	-	-	-	-	-	1,401,394	1,401,394
Bonds payable	-	-	-	-	218,985,000	-	-	85,595,000	259,045,000	3,475,000	-	99,825,000	412,875,000	-	-	-	-	1,079,800,000	1,079,800,000
Deferred amount on defeased bonds	-	-	-	-	-	-	-	-		-	-	(11,029,651)	(616,069)	-	-	-	-	(11,645,720)	(11,645,720)
Restricted assets held for Government of the U.S. Virgin Islands	12,972,003	-	-	12,972,003	13,330,377	-	-	26,912,670	55,946,451	4,753,550	-	-	29,967,376	-	5,340,470	2,300,000	-	138,550,894	151,522,897
Deferred revenue	-	-	-	-	-	-	-	-	-	-	-	210,613	176,817	-	-	-	-	387,430	387,430
Payable from restricted assets	-	-		-	3,188,611	303,791	342,747	9,928,508	16,715,354	2,327,466	4,922,292	29,948,407	35,016,093	-	-	-	-	102,693,269	102,693,269
Total noncurrent liabilities	12,972,003	21,391,814	-	34,363,817	235,503,988	1,705,185	342,747	122,436,178	331,706,805	10,556,016	4,922,292	118,954,369	477,419,217	-	5,340,470	2,300,000	-	1,311,187,267	1,345,551,084
Total Liabilities	13,518,374	25,816,901	771,328	40,106,603	241,304,744	3,037,456	1,784,235	127,857,847	341,350,043	13,866,016	4,922,292	127,913,513	506,035,181	(12,842)	5,016,377	2,312,842	-	1,375,387,704	1,415,494,307
NET ASSETS																			
Invested in capital assets, net of related debt	-	18,260,765	8,758,936	27,019,701	-	-	-	-	-	-	-	-	-	-	-	-	-	-	27,019,701
Restricted	-	-	-	-	-	-	-	-	-	27,430	479,800	10,937,097	9,555,132	5,170,421	-	18,797	669,608	26,858,285	26,858,285
Unrestricted	10,652,162	5,762,863	(112,188)	16,302,837	-	-	-	-	-	-	-	-	-	-	(5,015,581)	-	-	(5,015,581)	11,287,256
Total net assets	$ 10,652,162	$ 24,023,628	$ 8,646,748	$ 43,322,538	$ -	$ -	$ -	$ -	$ -	$ 27,430	$ 479,800	$ 10,937,097	$ 9,555,132	$ 5,170,421	$ (5,015,581)	$ 18,797	$ 669,608	$ 21,842,704	$ 65,165,242

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

Exhibit II

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

Statement of Revenues, Expenses and Changes in Net assets

For the Year Ended September 30, 2007

Description	Operating	The West Indian Company	King's Alley Management Inc.	Total From Activities	2006 Series Revenue Bonds	2006 Series Notes	2005 Series Notes	2004 Series A Revenue Bonds	2003 Series A Revenue Bonds	2002 Garvey Bonds	Swap Option Agreement	1999 Series A Revenue Bonds	1998 Series Revenue & Refunding Series Bonds	Revenue Bonds Series 1992 A and Series 1992 B	Revenue Bonds Series 1994 A Series 1994 B and Series 1994 C	Transportation Trust 1989 Series Bonds	Y2K	**Total From Bond and Investment Management**	**Total**
OPERATING REVENUES																			
Charges for services	$ 1,688,002	$ 11,374,105	$ 390,583	$ 13,452,690	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 13,452,690
Other operating revenues	1,045,935	-	-	1,045,935	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,045,935
Total operating revenues	2,733,937	11,374,105	390,583	14,498,625	-	-	-	-	-	-	-	-	-	-	-	-	-	-	14,498,625
OPERATING EXPENSES																			
General and administrative	3,194,042	7,563,084	471,346	11,228,472	-	-	-	-	-	-	14	-	72,232	1,000	-	-	-	73,246	11,301,718
Depreciation		1,411,203	222,668	1,633,871	-	-	-	-		-	-	-	-	-	-	-	-	-	1,633,871
Total operating expenses	3,194,042	8,974,287	694,014	12,862,343	-	-	-	-	-	-	14	-	72,232	1,000	-	-	-	73,246	12,935,589
Operating income (loss)	(460,105)	2,399,818	(303,431)	1,636,282	-	-	-	-	-	-	(14)	-	(72,232)	(1,000)	-	-	-	(73,246)	1,563,036
NONOPERATING REVENUES (EXPENSES)																			
Interest income:																			
Cash & Investments	476,607	354,709	8,800	840,116	503,137	-	-	228,723	31,449	216,610	124,448	2,099,098	2,747,451	112,423	5,760	31,657	14,191	6,114,947	6,955,063
Loans receivable	-	-	-	-	10,679,775	170,113	103,193	4,583,338	13,066,475	497,000		6,537,674	23,995,112					59,632,680	59,632,680
Other investment income	-	-	-	-	-	-	-	-	-	-	-	105,307	88,408	-	-	-	-	193,715	193,715
Amortization of bond discount/issuance costs	-	-	-	-	(503,137)	-	-	(228,723)	(31,449)	(232,163)	-	(568,093)	(439,013)	-	-	-	-	(2,002,578)	(2,002,578)
Amortization of deferred amount	-	-	-	-	-	-	-	-	-	-	-	(1,225,517)	(616,020)	-	-	-	-	(1,841,537)	(1,841,537)
Interest expense	-	(1,394,738)	-	(1,394,738)	(10,679,775)	(170,113)	(103,193)	(4,583,338)	(13,066,475)	(497,000)	-	(6,537,674)	(23,995,113)	-	-	-	-	(59,632,681)	(61,027,419)
Gain (loss) on sale of fixed assets	-	(7,052)	-	(7,052)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(7,052)
In lieu of taxes	-	(1,000,000)	-	(1,000,000)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,000,000)
																			-
Total nonoperating revenue (expenses)	476,607	(2,047,081)	8,800	(1,561,674)	-	-	-	-	-	(15,553)	124,448	410,795	1,780,825	112,423	5,760	31,657	14,191	2,464,546	902,872
Income (loss) before transfers	16,502	352,737	(294,631)	74,608	-	-	-	-	-	(15,553)	124,434	410,795	1,708,593	111,423	5,760	31,657	14,191	2,391,300	2,465,908
Payments on behalf of GVI	-	-	-	-	-	-	-	-	-	-	(27,045)	(3,300,000)	-	(319,440)	-	(1,632)	-	(3,648,117)	(3,648,117)
Internal transfers	(350,000)	-	941,832	591,832	-	-	-	-	-	-	-	-	-	-	(591,832)	-	-	(591,832)	-
				-															
Change in net assets	(333,498)	352,737	647,201	666,440	-	-	-	-	-	(15,553)	97,389	(2,889,205)	1,708,593	(208,017)	(586,072)	30,025	14,191	(1,848,649)	(1,182,209)
				-															-
Total net assets-beginning	10,985,660	23,670,891	7,999,548	42,656,099	-	-	-	-	-	42,983	382,410	13,826,302	7,846,539	5,378,438	(4,429,509)	(11,228)	655,417	23,691,352	66,347,451
Total net assets-ending	$ 10,652,162	$ 24,023,628	$ 8,646,749	$ 43,322,539	$ -	$ -	$ -	$ -	$ -	$ 27,430	$ 479,799	$ 10,937,097	$ 9,555,132	$ 5,170,421	$ (5,015,581)	$ 18,797	$ 669,608	$ 21,842,703	$ 65,165,242
																			-