BASIC FINANCIAL STATEMENTS AND
OMB CIRCULAR A-133 REPORT

Government of the United States Virgin Islands
Year Ended September 30, 2009
With Report of Independent Auditors

ERNST & YOUNG

Government of the United States Virgin Islands

Basic Financial Statements and
OMB Circular A-133 Report

Year Ended September 30, 2009

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Report of Independent Auditors

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

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2009, which collectively comprise the Government's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units:

- The Virgin Islands Public Finance Authority (PFA), a blended component unit, which represents 100% of the assets, fund balance, and revenue of the PFA Debt Service Fund (a major fund); 100% of the assets, fund balance, and revenue of the PFA Capital Projects Fund (a major fund); 100% of the assets, net assets, and revenue of the West Indian Company (a major fund); 1.5%, 0.4% and 1.4%, respectively, of the assets, net assets/fund balance, and revenue/additions of the aggregate remaining fund information; $1.9 billion of the $1.8 billion assets and 7.8% of the revenues of the governmental activities; 83.0% and 14.7%, respectively, of the assets and revenue of the business-type activities, respectively. The PFA net assets represent $27 million of the $739.8 million net deficit of the governmental activities, and $29.5 million of the $3.1 million net assets of the business-type activities.

- The Virgin Islands Lottery (VI Lottery), a nonmajor enterprise fund, which represents 0.5% and 3.8%, respectively, of the assets and revenues/additions of the aggregate remaining fund information, and 13% and 32.1%, respectively, of the assets and revenue of the business-type activities. The VI Lottery net deficit represents $118 thousand of the $1.4 billion net assets/fund balance of the aggregate remaining fund information.

- The Tobacco Settlement Financing Corporation, a blended component unit, which represents 0.2%, 0.2%, and 0.5%, respectively, of the assets, net assets/fund balance, and revenue/additions of the aggregate remaining fund information, and 1.1%, 1.0%, and 0.3%, respectively, of the assets, net deficit, and revenue of the governmental activities.

- The Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 89.1%, 95.7%, and 34.3%, respectively, of the assets, net assets/fund balance, and revenue/additions of the aggregate remaining fund information.

- The Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority, Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), the Virgin Islands Housing Finance Authority (VIHFA), and the Waste Management Authority, discretely presented component units, which collectively represent 28.9%, 31.0%, and 34.8%, respectively, of the assets, net assets, and revenue of the aggregate discretely presented component units.

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

Except as discussed in the following six paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Government's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 audit and the reports of other auditors provide a reasonable basis for our opinions.

The report of other auditors on the 2009 financial statements of VIEDA, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether loans receivable of $4.2 million were fairly stated.

The report of other auditors on the 2009 financial statements of VIPTS, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $12.2 million were fairly stated.

The report of other auditors on the 2009 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because GERS maintained investments in a limited partnership valued at $43.9 million whose fair value has been estimated in the absence of a readily determinable fair value. GERS' estimate was based on information provided by the general partner of the limited partnership. The effect on the financial statements as a result of GERS' inability to document its procedures for determining fair value of the investment was not determinable.

The report of other auditors on the 2009 financial statements of the VI Lottery, a nonmajor enterprise fund, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether the amount due to the general fund of $4.5 million was fairly stated.

The Government did not maintain the requisite documentation to support its accrued compensated absences liability, its landfill closure and post-closure liability, and its retroactive union arbitration liability of $54.3 million, $170.9 million, and $231.8 million, respectively. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances in the governmental activities were required.

The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities and aggregate remaining fund information as of and for the year ended September 30, 2009, may have been affected by this condition.

Because of the matter discussed in the preceding paragraph of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position, changes in financial position and cash flows, where applicable, of the business-type activities and aggregate remaining fund information as of and for the year ended September 30, 2009.

In our opinion, based on our audit and the reports of other auditors, except for the effect of the adjustments, if any, as might be determined to be necessary, had the other auditors been able to obtain sufficient audit evidence to determine whether (1) loans receivable of $4.2 million in the financial statements of VIEDA and (2) capital assets of $12.2 million in the financial statements of VIPTS were fairly stated as described in paragraphs four and five above, and the effect of the adjustments, if any, as might be determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether the accrued compensated absences liability, the landfill closure and post-closure liability, and the retroactive union arbitration liability in the governmental activities were fairly stated as described in paragraph eight above, the financial statements referred to previously, present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and the governmental activities, respectively, of the Government of the United States Virgin Islands, as of September 30, 2009, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Finally, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Government of the United States Virgin Islands, as of September 30, 2009, and the respective changes in financial position of the general fund, PFA debt service fund, PFA capital projects fund, and WICO; and respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As described more fully in Note 17 to the financial statements, which discusses the correction of prior period errors, as of October 1, 2008, the fund balance/net assets of the general fund, governmental activities, aggregate remaining fund information, and business-type activities were restated by \$7.4 million, \$33.3 million, \$726 thousand, and \$726 thousand, respectively. In addition, the net assets of the discretely presented component units were restated by \$8.7 million.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2011, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, and the schedules of funding progress and employer contributions listed under required supplementary information in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors 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 opinions on the financial statements that collectively comprise the Government's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis, as required by U.S. Office of Management and Budget Circular A-133, *Audit of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards has been subjected to 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.

Ernst & Young LLP

July 25, 2011

Introduction

The following management's discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2009 and 2008.

Government-wide Financial Statements

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

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

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

> ***Governmental Activities*** – The activities in this section are mostly supported by taxes and intergovernmental revenue (federal grants). Most services normally associated with the primary government (PG) fall into this category, including general government, public safety, health, public housing and welfare, education, transportation and communication, and culture and recreation.
>
> ***Business-Type Activities*** – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the Government include the operations of the (i) unemployment insurance program and (ii) the West Indian Company (WICO). Both of these programs operate with minimal assistance from the governmental activities of the Government.

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

Fund Financial Statements

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

A major fund is a fund whose revenue, expenditures or expenses, assets, or liabilities (excluding extraordinary items) are at least 10% of the corresponding totals for all governmental or enterprise funds and at least 5% of the aggregate amount for all governmental and enterprise funds for the same item. The general fund is always considered a major fund. In addition to funds that meet the major fund criteria, any other governmental or enterprise fund that the Government believes is particularly important to the financial statements may be reported as a major fund.

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

Governmental Funds

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

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

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

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

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

Proprietary Funds

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

The West Indian Company (WICO) fund is a major proprietary fund. The WICO fund accounts for the activities of WICO, which owns a port facility including a cruise ship pier, and manages a shopping mall complex on the island of St. Thomas.

The proprietary fund activities are reported in a separate statement of net assets (deficit), statement of revenues, expenditures, and changes in fund net assets (deficit) and statement of cash flows.

Fiduciary Funds

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

Financial Analysis of the Government as a Whole

The PG experienced several financial challenges during the fiscal year ended September 30, 2009. The PG was unable to issue property tax assessments for fiscal year 2009, or the previous three fiscal years (2008, 2007 and 2006) due to a court injunction related to a class action lawsuit filed by commercial taxpayers.

The PG and its component units continue to experience a downturn in the economy following the economic recession of 2008. The PG also recorded a liability in the current year for landfill closure and post-closure costs amounting to $131 million.

The Government has initiated several actions to offset the negative impact of these financial challenges. The Government continues to promote environmentally safe industries into the USVI. The Government is participating in the American Recovery and Reinvestment Act, obtaining: 1) federal grants for energy, health, education and other construction projects, and 2) federal loss recovery for tax initiatives such as the Making Work Pay tax credit. To improve cash flow, the PG overhauled the property tax assessment and valuation system, proposed increases to locally assessed taxes, and enacted expenditure reduction initiatives.

In fiscal year 2009, the Government issued the 2009 Series Bonds amounting to $250 million to finance the costs of constructing a rum production and maturation warehouse on the island of St. Croix. The Government issued Series 2009 Notes amounting to $8 million, to finance the purchase and installation of emergency communication equipment for the Virgin Islands Police Department. The Government borrowed $3 million from the U.S. Treasury to fund the Unemployment Trust Fund, which became insolvent during the year. The Government issued the Subordinated Lien Revenue Bond Anticipation Notes amounting to $100 million with the agent lender, a local bank, and $50 million with the syndicate lender, also a local bank, to provide working capital to the PG. Also, the Government issued the Tax Increment Revenue Bond Anticipation Note Purchase Agreement amounting to $15.7 million (of which $6 million had been drawn as of September 30, 2009) to finance the developmental costs of a shopping complex on the island of St. Croix.

In fiscal year 2008, the Government issued the 2008 Series Note in the amount of $7.65 million to finance the purchase of police vehicles and communication equipment.

Financial Analysis of the Primary Government

Total assets of the PG as of September 30, 2009 and 2008, as restated, were approximately $1.84 billion. Total liabilities as of September 30, 2009 and 2008, as restated, were $2.58 billion and $2.02 billion, respectively, an increase of approximately $556 million.

As of September 30, 2009, the PG net deficit of $736.7 million consisted of $209.0 million invested in capital assets, net of related debt; $195.3 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $1.14 billion. As of September 30, 2008, the PG net deficit of $181.1 million, as restated, consisted of $185.8 million invested in capital assets, net of related debt; $150.9 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $517.8 million.

For the fiscal year ended September 30, 2009, the PG earned program and general revenue amounting to $1.0 billion and reported expenses of $1.56 billion, resulting in a decrease in net assets of $555.6 million.

For the fiscal year ended September 30, 2008, as restated, the PG earned program and general revenue amounting to $1.17 billion, and reported expenses, as restated, of $1.33 billion, resulting in a decrease in net assets of $160.5 million.

Overall, revenue decreased by approximately $165.3 million in fiscal 2009, when compared to fiscal 2008, mainly due to a reduction in tax revenue of $210.2 million, and a reduction in other general revenue of $23.1 million; offset by an increase in operating grants and revenue of approximately $79.1 million. Expenses increased in fiscal 2009 when compared to fiscal 2008, as restated, by $229.8 million, mainly due to an increase in estimated landfill closure and post-closure costs of $131.3 million and an increase in estimated other post-employment benefits amounting to $31.9 million.

A summary of net assets (deficit) and changes in net assets (deficit) for the primary government follows:

Net Assets (Deficit) – Primary Government

September 30, 2009 and 2008

(In thousands)

	Governmental activities		Business-type activities		Total	
		Restated				*Restated*
	2009	2008	2009	2008	2009	2008
Assets						
Current assets	**$ 989,720**	$ 1,023,854	**$ 15,182**	$ 37,266	**$ 1,004,902**	$ 1,061,120
Capital assets	**755,256**	705,500	**54,353**	52,579	**809,609**	758,079
Other assets	**28,175**	22,651	**208**	228	**28,383**	22,879
Total assets	**1,773,151**	1,752,005	**69,743**	90,073	**1,842,894**	1,842,078
Liabilities						
Long-term debt outstanding	**1,823,034**	1,114,378	**33,492**	23,557	**1,856,526**	1,137,935
Other liabilities	**689,902**	856,728	**33,176**	28,490	**723,078**	885,218
Total liabilities	**2,512,936**	1,971,106	**66,668**	52,047	**2,579,604**	2,023,153
Net Assets						
Invested in capital assets, net of related debt	**176,103**	154,823	**32,944**	30,954	**209,047**	185,777
Restricted	**194,983**	140,632	**277**	10,266	**195,260**	150,898
Unrestricted	**(1,110,871)**	(514,556)	**(30,146)**	(3,194)	**(1,141,017)**	(517,750)
Total net assets (deficit)	**$ (739,785)**	$ (219,101)	**$ 3,075**	$ 38,026	**$ (736,710)**	$ (181,075)

Changes in Net Assets (Deficit) – Primary Government

In Thousands	Governmental Activities 2009	Governmental Activities *Restated* 2008	Business-type Activities 2009	Business-type Activities 2008	Total 2009	Total *Restated* 2008
Revenue:						
Program revenue:						
Charges for services	**$ 51,216**	$ 37,859	**$ 48,861**	$ 54,483	**$ 100,077**	$ 92,342
Operating grants and contributions	**200,146**	160,817	**12,415**	–	**212,561**	160,817
Capital grants and contributions	**27,325**	–	**–**	–	**27,325**	–
General revenue:						
Taxes	**582,239**	792,415	**–**	–	**582,239**	792,415
Interest and other	**54,448**	72,306	**490**	1,468	**54,938**	73,774
Other general revenue	**25,826**	48,953	**–**	–	**25,826**	48,953
Total revenue	**941,200**	1,112,350	**61,766**	55,951	**1,002,966**	1,168,301
Expenses:						
General government	**706,559**	538,406	**–**	–	**706,559**	538,406
Public safety	**67,045**	72,682	**–**	–	**67,045**	72,682
Health	**154,599**	148,120	**–**	–	**154,599**	148,120
Public housing and welfare	**124,498**	107,409	**–**	–	**124,498**	107,409
Education	**287,779**	255,874	**–**	–	**287,779**	255,874
Transportation and communication	**50,019**	53,375	**–**	–	**50,019**	53,375
Culture and recreation	**10,784**	7,364	**–**	–	**10,784**	7,364
Interest on long-term debt	**61,301**	58,773	**–**	–	**61,301**	58,773
Unemployment insurance	**–**	–	**42,389**	12,524	**42,389**	12,524
West Indian Company	**–**	–	**9,855**	10,415	**9,855**	10,415
Workmen's compensation	**–**	–	**8,876**	27,205	**8,876**	27,205
VI Lottery	**–**	–	**22,331**	18,600	**22,331**	18,600
Other	**–**	–	**12,566**	18,031	**12,566**	18,031
Total expenses	**1,462,584**	1,242,003	**96,017**	86,775	**1,558,601**	1,328,778
Changes in net assets (deficit) before transfers	**(521,384)**	(129,653)	**(34,251)**	(30,824)	**(555,635)**	(160,477)
Transfers	**700**	(101)	**(700)**	101	**–**	–
	700	(101)	**(700)**	101	**–**	–
Change in net deficit	**(520,684)**	(129,754)	**(34,951)**	(30,723)	**(555,635)**	(160,477)
Net assets (deficit) at beginning of year, as restated	**(219,101)**	(89,347)	**38,026**	68,749	**(181,075)**	(20,598)
Net assets (deficit) at end of year	**$ (739,785)**	$ (219,101)	**$ 3,075**	$ 38,026	**$ (736,710)**	$(181,075)

The Virgin Islands Office of Management and Budget of the PG prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in Note 3 of the basic financial statements. A summary of the budgetary report for the General Fund of the PG, included on page 25 of the financial statements, follows:

Revenue and Expenditures – Budget and Actual –
Budgetary Basis – General Fund

Year Ended September 30, 2009
(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Total revenues	$ 768,137	$ 768,137	$ 408,879	$ (359,258)
Total expenditures	812,048	824,632	782,750	(41,882)
Deficiency of revenues over expenditures	(43,911)	(56,495)	(373,871)	(401,140)
Other financing sources, net	99,312	99,312	91,618	(7,694)
Deficiency of revenues and net other financing sources over expenditures	$ 55,401	$ 42,817	$ (282,253)	$ (408,834)

For fiscal 2009, the PG realized an unfavorable revenue variance of $359 million mainly due to a reduction in tax collections: personal income, corporate income and property tax. The PG realized a $42 million favorable expenditure variance representing five percent (5.00%) of total budgeted expenditures that was attributed to prioritized, yet reduced spending across several functions of government. The PG realized an $8 million variance in other financing sources due to the fact that transfers to the general fund were less than budgetary estimates.

Capital Assets

Capital assets additions during fiscal 2009 amounted to $88.6 million for governmental activities and $5.2 million for business-type activities.

Capital assets additions during fiscal 2008, as restated, amounted to $81.9 million for governmental activities and $4.9 million for business-type activities.

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

Capital Assets – Primary Government

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2009	***Restated*** **2008**	**2009**	**2008**	**2009**	***Restated*** **2008**
Land and improvements	**$ 192,711**	$ 191,697	**$ 5,495**	$ 5,328	**$ 198,206**	$ 197,025
Building and improvements	**396,392**	389,731	**65,026**	60,414	**461,418**	450,145
Machinery and equipment	**124,882**	106,301	**8,420**	6,925	**133,302**	113,226
Infrastructure	**222,353**	205,990	**–**	–	**222,353**	205,990
Construction in progress	**111,594**	69,022	**1,640**	3,314	**113,234**	72,336
Total capital assets	**1,047,932**	962,741	**80,581**	75,981	**1,128,513**	1,038,722
Less accumulated depreciation	**(292,676)**	(257,241)	**(26,228)**	(23,402)	**(318,904)**	(280,643)
Total capital assets, net	**$ 755,256**	$ 705,500	**$ 54,353**	$ 52,579	**$ 809,609**	$ 758,079

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

Debt Administration

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2009:

Primary Government – Bonds Payable

(In thousands)

Bonds Payable	Maturity	Rates (%)	Balance
1998 Series A, C, D, and E Revenue and Refunding Bonds	2025	5.50 to 7.11	$ 395,505
1999 Series A General Obligation Bonds	2010	6.50	600
1999 Series A Revenue Bonds	2020	4.20 to 6.50	93,925
2001 Series A Tobacco Bonds	2031	5.00	18,260
2003 Series A Revenue Bonds	2033	4.00 to 5.25	255,815
2004 Series A Revenue Bonds	2025	4.00 to 5.25	82,310
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2006 Series A Revenue Bonds	2029	3.50 - 5.00	217,495
2009 Series A Revenue Bonds	2038	6.00 to 6.75	250,000
Subtotal			1,321,200
Deferred costs on refundings			(15,106)
Bond premium			15,902
Bond discount			(7,106)
Bond accretion			1,829
Total			$ 1,316,719

Note 10 provides detailed information regarding all bonds of the PG.

In fiscal year 2009, the Government issued the: 1) 2009 Series Bonds amounting to $250 million to finance a rum production and maturation warehouse, 2) Series 2009 Notes amounting to $8 million to finance the purchase of police communication equipment, 3) Subordinated Lien Revenue Bond Anticipation Notes amounting to $100 million with an agent lender bank, and $50 million with a syndicate lender bank to provide working capital to the PG, and 4) the Tax Increment Revenue Bond Anticipation Note Purchase Agreement amounting to $15.7 million, (of which $6 million had been drawn as of September 30, 2009) to finance the development costs of a shopping complex on the island of St. Croix. During fiscal year 2009, the Government also borrowed $3 million from the U.S. Treasury to fund the Virgin Islands Unemployment Trust Fund which became insolvent in July 2009.

In fiscal year 2008, the Government issued the 2008 Series Note amounting to $7.6 million to finance the purchase of police vehicles and communication equipment.

The PG made bond principal payments on all outstanding general and special revenue bonds amounting to $37.6 million during fiscal year 2009 and $34.7 million during fiscal year 2008.

The Government's bonds carry insured ratings of "AAA" and "Aaa" from Fitch Ratings and Moody's Investors Services, respectively. Ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained from the respective rating agency.

Other liabilities of the PG include:

Primary Government – Other Liabilities

September 30, 2009 and 2008

(In millions)

	2009	***Restated* 2008**
Accrued compensated absences	**$ 54**	$ 61
Retroactive union arbitration	**232**	277
Litigation	**16**	14
Arbitrage	**2**	2
Post employment benefits	**94**	47
Landfill closure and post closure costs	**171**	40
Total other liabilities	**$ 569**	$ 441

Economic Condition and Outlook

The PG continues its recovery efforts from the economic recession of fiscal year 2008 through a combination of revenue initiatives and budgetary restraint on expenditures.

Revenue Initiatives

The PG has implemented several initiatives to create jobs and promote economic growth including: providing economic incentives to attract a major rum distiller (Diageo) and retain another rum distiller (Cruzan Rum), enactment of tax increment financing legislation, continued promotion of tourism through national advertising, and participation in grant awards through the American Recovery and Reinvestment Act (ARRA). The PG has also implemented several tax initiatives including: ARRA reimbursement of losses resulting from the Making Work Pay income tax credit, implementation of gross receipts tax amnesties, and proposed increases of local taxes.

In connection with a real property tax case instituted against the PG in the U.S. District Court of the Virgin Islands, the PG was enjoined from appraising and assessing any real property taxes until it modified its system of appraisal to comply with certain court mandates. The PG retained a consultant to modify its system of appraisal and to perform reassessment of properties. This project was completed in fiscal 2008. The U.S. District Court also required an over-haul of the tax review board responsible for hearing tax assessment reviews. The PG is taking steps to comply with the Court order. In fiscal 2010, the PG passed legislation authorizing the issuance of property taxes at the 1998 assessment level.

The Government is currently in litigation challenging the computation of its corporate franchise tax. Of the four cases brought against the Government, one is currently before the Virgin Islands Territorial Court, and the remaining three cases are on appeal.

Budgetary Control of Expenditures

The PG faces the challenge of carryforward liabilities from prior fiscal years and increasing expenditures in fiscal 2009.

Carryforward liabilities consist mainly of retroactive salary increases, which accumulated following Hurricanes Hugo, Marilyn and Bertha in the years of 1990 through 1998. At September 30, 2009 and 2008, unpaid retroactive salary increase liabilities amounted to $232 million and $277 million, respectively, which are reported as a liability of the Government within other noncurrent liabilities.

Increasing expenditures in fiscal year 2009 included estimated landfill closure and post-closure costs amounting to $131 million and other postemployment benefits amounting to $47.2 million.

Other increasing general governmental expenditures include increased health insurance premiums, pharmaceutical premiums, and salary expense.

Expenditures are closely monitored and controlled through the budgetary process.

Deficit Reduction Measures

In fiscal year 2009, the PG reported an unrestricted net deficit of $1.14 billion. In fiscal year 2008, the PG reported an unrestricted net deficit, as restated, of $517.8 million.

The PG has implemented a number of deficit reducing measures including: (i) withholding of local gross receipts taxes on Government invoice payments, (ii) increasing local taxes such as property tax assessments on time-shares and gross receipts taxes; (iii) exerting greater control of expenditures through the budgetary process, and (iv) implementation of a tax amnesty for gross receipts taxes.

Contacting the Government's Financial Management

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

Government of the United States Virgin Islands

Statement of Net Assets (Deficit)

September 30, 2009
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 214,675	$ 13,654	$ 228,329	$ 76,348
Investments	469,905	5,216	475,121	32,007
Receivables, net	267,934	2,271	270,205	64,148
Internal balances	9,011	(9,011)	–	–
Due from component units, net	11,957	–	11,957	–
Notes receivable	–	–	–	19,212
Due from primary government	–	–	–	27,940
Due from federal government	15,976	–	15,976	3,599
Inventories	–	22	22	26,222
Other assets	262	856	1,118	27,697
Restricted:				
Cash and cash equivalents	–	2,174	2,174	57,672
Investments	–	–	–	58,674
Other	–	–	–	130
Capital assets, net	755,256	54,353	809,609	883,434
Deferred and other expenses	28,175	208	28,383	54,719
Total assets	1,773,151	69,743	1,842,894	1,331,802
Liabilities				
Accounts payable and accrued liabilities	160,047	7,055	167,102	108,711
Tax refunds payable	87,458	–	87,458	–
Unemployment insurance benefits	–	16,818	16,818	–
Customer deposits	–	–	–	21,301
Due to primary government	–	–	–	69,356
Due to component units	12,501	–	12,501	–
Due to federal government	–	–	–	5,047
Interest payable	32,328	–	32,328	5,906
Unearned revenue	204,636	775	205,411	5,999
Other current liabilities	10,819	–	10,819	17,206
Noncurrent liabilities:				
Due within one year:				
Loans payable	110,556	606	111,162	12,015
Bonds payable	35,611	–	35,611	12,633
Other liabilities	35,946	8,238	44,184	991
Due in more than one year:				
Loans payable	8,481	25,919	34,400	63,362
Bonds payable	1,281,108	–	1,281,108	287,699
Other liabilities	533,445	7,257	540,702	55,493
Total liabilities	2,512,936	66,668	2,579,604	665,719

(Continued)

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) (continued)

September 30, 2009
(In thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Net assets (deficit)				
Invested in capital assets, net of related debt	$ 176,103	$ 32,944	$ 209,047	$ 601,344
Restricted for:				
Unemployment insurance	–	277	277	–
Debt service	193,933	–	193,933	–
Capital projects	1,050	–	1,050	–
Other purposes	–	–	–	105,985
Unrestricted	(1,110,871)	(30,146)	(1,141,017)	(41,246)
Total net assets (deficit)	$ (739,785)	$ 3,075	$ (736,710)	$ 666,083

See accompanying notes.

Government of the United States Virgin Islands

Statement of Activities

Year Ended September 30, 2009

(In thousands)

		Program Revenues			Net Revenue (Expense) and Changes in Net Assets			
					Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Functions:								
Primary government:								
Governmental activities:								
General government	$ 706,559	$ 38,828	$ 62,364	$ 5,489	$ (599,878)	$ –	$ (599,878)	$ –
Public safety	67,045	1,055	2,286	–	(63,704)	–	(63,704)	–
Health	154,599	217	27,743	–	(126,639)	–	(126,639)	–
Public housing and welfare	124,498	10,949	71,505	–	(42,044)	–	(42,044)	–
Education	287,779	–	19,653	–	(268,126)	–	(268,126)	–
Transportation and communication	50,019	1	14,703	23,678	(11,637)	–	(11,637)	–
Culture and recreation	10,784	166	50	–	(10,568)	–	(10,568)	–
Interest on long-term debt	61,301	–	–	–	(61,301)	–	(61,301)	–
Total governmental activities	1,462,584	51,216	198,304	29,167	(1,183,897)	–	(1,183,897)	–
Business-type activities:								
Unemployment insurance	42,389	906	12,415	–	–	(29,068)	(29,068)	–
West Indian Company	9,855	8,338	–	–	–	(1,517)	(1,517)	–
Workmen's compensation	8,876	6,939	–	–	–	(1,937)	(1,937)	–
VI Lottery	22,331	19,836	–	–	–	(2,495)	(2,495)	–
Other	12,566	12,842	–	–	–	276	276	–
Total business-type activities	96,017	48,861	12,415	–	–	(34,741)	(34,741)	–
Total primary government	$ 1,558,601	$ 100,077	$ 210,719	$ 29,167	(1,183,897)	(34,741)	(1,218,638)	–
Component units:								
Virgin Islands Housing Authority	$ 44,517	$ 5,709	$ 26,389	$ 7,601	–	–	–	(4,818)
Virgin Islands Port Authority	55,195	36,412	–	4,282	–	–	–	(14,501)
Virgin Islands Water and Power Authority:								
Electric system	295,176	267,550	–	2,917	–	–	–	(24,709)
Water system	29,822	38,876	–	736	–	–	–	9,790
Virgin Islands Government Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	93,401	53,809	29,658	255	–	–	–	(9,679)
Juan F. Luis Hospital	76,747	32,670	26,412	4,029	–	–	–	(13,636)
University of the Virgin Islands	73,298	17,183	51,537	3,192	–	–	–	(1,386)
Other component units	63,503	7,096	49,873	6,095	–	–	–	(439)
Total component units	$ 731,659	$ 459,305	$ 183,869	$ 29,107	–	–	–	(59,378)
Total primary government and component units					(1,183,897)	(34,741)	(1,218,638)	(59,378)

(continued)

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Government of the United States Virgin Islands

Statement of Activities (continued)

Year Ended September 30, 2009
(In thousands)

	Net Revenue (Expense) and Changes in Net Assets — Primary Government: Governmental Activities	Business-type Activities	Total	Component Units
General revenues:				
Taxes	582,239	–	582,239	–
Interest and other	77,848	490	78,338	10,929
Tobacco settlement rights	2,426	–	2,426	–
Transfers – internal activities of primary government	700	(700)	–	–
Total general revenue and transfers	663,213	(210)	663,003	10,929
Changes in net assets (deficit)	(520,684)	(34,951)	(555,635)	(48,449)
Net assets (deficit), beginning of year, as restated	(219,101)	38,026	(181,075)	714,532
Net assets (deficit), end of year	$ (739,785)	$ 3,075	$ (736,710)	$ 666,083

See accompanying notes.

Government of the United States Virgin Islands

Balance Sheet – Governmental Funds

September 30, 2009
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Assets					
Cash and cash equivalents	$ 90,384	$ –	$ 23,984	$ 74,229	$ 188,597
Investments	56,065	214,701	186,577	12,562	469,905
Receivables:					
Taxes, net	223,883	42,163	–	–	266,046
Accrued interest and other	36	–	–	159	195
Due from:					
Other funds	9,507	11,983	400	13,380	35,270
Component units, net	11,957	–	–	–	11,957
Federal government	–	–	–	15,976	15,976
Other assets	–	–	228	34	262
Total assets	$ 391,832	$ 268,847	$ 211,189	$ 116,340	$ 988,208
Liabilities and Fund Balances (Deficit)					
Accounts payable and accrued liabilities	$ 74,520	$ 28	$ 3,793	$ 29,551	$ 107,892
Tax refunds payable	87,458	–	–	–	87,458
Due to:					
Other funds	23,006	–	–	3,254	26,260
Component units	12,501	–	–	–	12,501
Deferred revenue	239,955	84,556	–	3,500	328,011
Other current liabilities	9,750	–	–	1,068	10,818
Total liabilities	447,190	84,584	3,793	37,373	572,940
Fund balances (deficit) reserved for:					
Encumbrances	7,124	–	–	–	7,124
Debt service	–	184,263	–	9,670	193,933
Unreserved fund balance (deficit), reported in:					
General fund	(62,482)	–	–	–	(62,482)
Special revenue funds	–	–	–	76,554	76,554
Capital projects funds	–	–	207,396	(7,257)	200,139
Total fund balances (deficit)	(55,358)	184,263	207,396	78,967	415,268
Total liabilities and fund balances (deficit)	$ 391,832	$ 268,847	$ 211,189	$ 116,340	

Amounts reported for governmental activities in the statement of net assets (deficit) are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	755,256
Deferred bond issue costs are not financial resources and, therefore, are not reported in the funds.	28,175
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and, therefore, are deferred in the funds	98,991
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(32,328)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,005,147)
Deficit of governmental activities	$ (739,785)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended September 30, 2009
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Revenues:					
Taxes	$ 400,306	$ 167,488	$ 4,177	$ 22,554	$ 594,525
Federal grants and contributions	–	3,647	–	223,824	227,471
Charges for services	42,092	–	–	9,124	51,216
Tobacco settlement rights	–	–	–	2,650	2,650
Interest and other	40,607	4,821	745	30,622	76,795
Total revenues	483,005	175,956	4,922	288,774	952,657
Expenditures:					
Current:					
General government	376,739	–	68,269	82,955	527,963
Public safety	63,017	–	–	1,600	64,617
Health	120,501	–	–	31,989	152,490
Public housing and welfare	56,557	–	40	67,548	124,145
Education	208,863	–	2	71,274	280,139
Transportation and communication	26,474	–	3,400	12,680	42,554
Culture and recreation	9,504	–	–	31	9,535
Capital outlays	15,579	–	37,356	35,666	88,601
Debt service:					
Principal	–	64,365	3,839	2,820	71,024
Interest	–	56,584	338	1,069	57,991
Cost of issuance of bonds and loans	–	8,323	696	–	9,019
Total expenditures	877,234	129,272	113,940	307,632	1,428,078
Excess (deficiency) of revenue over expenditures	(394,229)	46,684	(109,018)	(18,858)	(475,421)
Other financing sources (uses):					
Bonds Issued	–	96,207	153,793	–	250,000
Loans issued	100,000	2,335	41,312	–	143,647
Bond Discounts	–	(2,507)	–	–	(2,507)
Transfers from other funds	104,504	–	401	25,397	130,302
Transfers to other funds	(12,886)	(95,470)	(2,345)	(18,901)	(129,602)
Total other financing sources (uses), net	191,618	565	193,161	6,496	391,840
Net change in fund balances	(202,611)	47,249	84,143	(12,362)	(83,581)
Fund balance at beginning of year, as restated	147,253	137,014	123,253	91,329	498,849
Fund balance at end of year	$ (55,358)	$ 184,263	$ 207,396	$ 78,967	$ 415,268

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2009
(In thousands)

Net change in fund balances – total governmental funds	$	(83,581)
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		53,165
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.		(41,996)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This is the amount by which debt loan and bond proceeds of $387.6 million exceeded debt repayments of $71 million.		(322,623)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year increased expenses reported in the statement of activities that do not require the use of current financial resources.		(129,112)
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceeded amortization expense in the current year.		5,524
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts deferred refunding loss, and accreted interest on capital appreciation bonds during the current year.		1,244
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the decrease in interest payable reported in the statement of net assets less the portion of accrued interest.		(3,305)
Change in net assets of governmental activities	$	(520,684)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues and Expenditures – Budget and Actual – Budgetary Basis – General Fund

Year Ended September 30, 2009

(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Taxes	$ 738,803	$ 738,803	$ 361,073	$ (377,730)
Charges for services	10,124	10,124	36,283	26,159
Interest and other	19,210	19,210	11,523	(7,687)
Total revenues	768,137	768,137	408,879	(359,258)
Expenditures:				
Current:				
General government	289,197	294,422	303,469	9,047
Public safety	84,423	87,173	60,209	(26,964)
Health	97,983	99,694	120,224	20,530
Public housing and welfare	66,390	66,890	56,557	(10,333)
Education	198,881	201,279	207,671	6,392
Transportation and communication	52,510	52,510	26,326	(26,184)
Culture and recreation	22,664	22,664	8,294	(14,370)
Total expenditures	812,048	824,632	782,750	(41,882)
Deficiency of revenues over expenditures	(43,911)	(56,495)	(373,871)	(317,376)
Other financing sources (uses):				
Transfers from other funds	115,788	115,788	104,504	(11,284)
Transfer to other funds	(16,476)	(16,476)	(12,886)	3,590
Total other financing sources, net	99,312	99,312	91,618	(7,694)
Excess (deficiency) of revenues and net other financing sources over expenditures	$ 55,401	$ 42,817	$ (282,253)	$ (325,070)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) – Proprietary Funds

September 30, 2009
(In thousands)

	Business-type Activities – Enterprise Funds		
	West Indian Company	Other Enterprise	Totals
Assets			
Current assets:			
Cash and cash equivalents	$ 3,195	$ 10,459	$ 13,654
Investments at fair value	–	5,216	5,216
Receivables, net:			
Premiums receivable	–	348	348
Other receivables	730	1,193	1,923
Due from other funds	–	300	300
Inventories	–	22	22
Other assets	812	44	856
Total current assets	4,737	17,582	22,319
Noncurrent assets:			
Restricted cash and cash equivalents	1,897	277	2,174
Capital assets	42,356	11,997	54,353
Deferred expenses	208	–	208
Total noncurrent assets	44,461	12,274	56,735
Total assets	49,198	29,856	79,054
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	1,969	5,086	7,055
Due to other funds	2,100	7,211	9,311
Unemployment insurance benefits	–	16,818	16,818
Unearned revenue	–	775	775
Workers compensation	–	8,238	8,238
Loan payable to U.S. Treasury	–	3,010	3,010
Loans payable related to capital assets	606	–	606
Total current liabilities	4,675	41,138	45,813
Noncurrent liabilities:			
Workers compensation	–	7,257	7,257
Loans payable related to capital assets	22,909	–	22,909
Total noncurrent liabilities	22,909	7,257	30,166
Total liabilities	27,584	48,395	75,979
Net assets (deficit)			
Invested in capital assets, net of related debt	20,947	11,997	32,944
Restricted	–	277	277
Unrestricted	667	(30,813)	(30,146)
Total net assets (deficit)	$ 21,614	$ (18,539)	$ 3,075

See accompanying notes.

Government of the United States Virgin Islands

Statement of Revenues, Expenses, and Changes in Fund Net Assets (Deficit) – Proprietary Funds

Year Ended September 30, 2009
(In thousands)

	Business-type Activities – Enterprise Funds		
	West Indian Company	**Other Enterprise**	**Total**
Operating revenues:			
Charges for services	$ 8,338	$ 40,523	$ 48,861
Total operating revenues	8,338	40,523	48,861
Operating expenses:			
Cost of services	6,590	84,960	91,550
Depreciation and amortization	1,785	1,202	2,987
Total operating expenses	8,375	86,162	94,537
Operating loss	(37)	(45,639)	(45,676)
Non-operating revenues (expenses):			
Federal unemployment assistance	–	12,415	12,415
Interest income	103	387	490
Interest expense	(1,480)	–	(1,480)
Total non-operating revenues (expenses), net	(1,377)	12,802	11,425
Loss before operating transfers	(1,414)	(32,837)	(34,251)
Transfers to other funds	(700)	–	(700)
Change in net assets	(2,114)	(32,837)	(34,951)
Net assets at beginning of year	23,728	14,298	38,026
Net assets (deficit) at end of year	$ 21,614	$ (18,539)	$ 3,075

See accompanying notes.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

Year Ended September 30, 2009
(In thousands)

	Business-type Activities – Enterprise Funds		
	West Indian Company	Other Enterprise	Total
Cash flows from operating activities			
Receipts from customers and users	$ 8,747	$ 40,469	$ 49,216
Payments to beneficiaries, suppliers and employees	(4,956)	(74,118)	(79,074)
Net cash provided by (used in) operating activities	3,791	(33,649)	(29,858)
Cash flows from noncapital financing activities			
Federal grants	–	12,415	12,415
Transfer to other funds	(700)	–	(700)
Net cash provided by (used in) noncapital financing activities	(700)	12,415	11,715
Cash flows from capital and related financing activities			
Capital assets received through long-term lease	565	–	565
Acquisition and construction of capital assets	(3,614)	(1,146)	(4,760)
Issuance of long-term debt	–	3,010	3,010
Principal paid on long-term debt	(607)	–	(607)
Interest paid on long-term debt	(1,480)	–	(1,480)
Net cash provided by (used in) capital and related financing activities	(5,136)	1,864	(3,272)
Cash flows from investing activities			
Interest on investments	103	387	490
Sale of investments	–	1,984	1,984
Net cash provided by investing activities	103	2,371	2,474
Net decrease in cash and cash equivalents	(1,942)	(16,999)	(18,941)
Cash and cash equivalents at beginning of year	7,034	27,735	34,769
Cash and cash equivalents at end of year	$ 5,092	$ 10,736	$ 15,828
Reconciliation of operating loss to net cash provided by (used in) operating activities			
Operating loss	$ (37)	$ (45,639)	$ (45,676)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	1,785	1,202	2,987
Change in assets and liabilities:			
Receivables, net	409	28	437
Inventories	–	2	2
Unearned revenue	20	573	593
Other assets	(16)	30	14
Accounts payable and accrued liabilities	1,630	(35)	1,595
Unemployment insurance benefits	–	10,840	10,840
Workers compensation	–	(655)	(655)
Due to other funds	–	5	5
Net cash provided by (used in) operating activities	$ 3,791	$ (33,649)	$ (29,858)
Reconciliation of cash and cash equivalents to the statement of net assets			
Cash and cash equivalents – current	$ 3,195	$ 10,459	$ 13,654
Cash and cash equivalents – restricted	1,897	277	2,174
Total Cash and cash equivalents at end of year	$ 5,092	$ 10,736	$ 15,828

See accompanying notes.

Government of the United States Virgin Islands

Statement of Fiduciary Net Assets – Fiduciary Funds

September 30, 2009
(In thousands)

	Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents:		
Unrestricted	$ 110,394	$ 41,633
Restricted	62	–
Investments	1,273,643	2,113
Receivables, net:		
Loans and advances	132,693	–
Accrued interest	5,793	–
Other	14,053	–
Other assets	16,582	–
Total assets	1,553,220	43,746
Liabilities		
Accounts payable and accrued liabilities	–	43,746
Cash overdraft with bank	3,940	–
Unsettled securities purchased	10,492	–
Securities lending collateral	184,538	–
Notes payable	7,313	–
Other liabilities	7,626	–
Total liabilities	213,909	43,746
Net assets held in trust for employees' pension benefits	$ 1,339,311	$ –

See accompanying notes.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

Year Ended September 30, 2009
(In thousands)

	Pension Trust Fund
Additions:	
Contributions:	
Employer	$ 80,177
Plan members	40,100
Total contributions	120,277
Investment income:	
Net appreciation of fair value of investments	4,247
Net depreciation of fair value of real estate	(14,450)
Interest, dividends, and other, net	48,612
Real estate – net rental income	2,752
	41,161
Less investment expense	5,890
Net investment income	35,271
Other income	2,896
Total additions	158,444
Deductions:	
Benefits paid	177,617
Refunds of contributions	2,916
Administrative and operational expenses	13,365
Total deductions	193,898
Change in net assets	(35,454)
Net assets, beginning of year	1,374,765
Net assets, end of year	$ 1,339,311

See accompanying notes.

1. Summary of Significant Accounting Policies

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

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

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

Financial Reporting Entity

The Government follows the provisions of GASB Statement No. 14, *The Financial Reporting Entity,* as amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. These standards require that the Government's financial reporting entity be defined according to specific criteria. According to the standard, for financial reporting purposes, the Government is a primary government (PG). The PG includes all Government departments, agencies, boards, and organizations that are not legally separate. In addition to the PG, the financial reporting entity includes blended and discretely presented component units. Component units include all legally separate organizations for which the Government's elected officials are financially accountable and other organizations for which the nature and significance of their relationship with the Government are such that exclusion would cause the basic financial statements to be misleading or incomplete. The criteria used to define financial accountability include appointment of a voting majority of an organization's governing body and (i) the ability of the PG to impose its will on that organization or (ii) the potential for the organization to provide specific financial benefits to or impose specific financial burdens on the PG.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

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

(a) Blended Component Units

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

Virgin Islands Public Finance Authority (PFA)

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

PFA has a component unit, the West Indian Company (WICO), which is presented as an enterprise fund in the Government's basic financial statements.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(a) Blended Component Units (continued)

Tobacco Settlement Financing Corporation (TSFC)

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

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

Administrative Offices of Blended Component Units
Virgin Islands Public Finance Authority
32-33 Kongens Gade
St. Thomas, VI 00802

Tobacco Settlement Financing Corporation
32-33 Kongens Gade
St. Thomas, VI 00802

(b) Discretely Presented Component Units

The following component units, consistent with GASB Statements Nos. 14 and 39 are discretely presented in the basic financial statements because of the nature of the services they provide and the Government's ability to impose its will. The component units are reported in a separate column to emphasize that they are legally separate from the PG and governed by separate boards.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units

Virgin Islands Housing Authority (VIHA)

VIHA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality by Act No. 903 on June 18, 1962, with the purpose of providing housing for low-income families. From June 1962 through August 2003, the powers of VIHA were exercised by a board of commissioners consisting of seven members. In August 2003, the U.S. Department of Housing and Urban Development (HUD) determined that because of the severity of compliance violations, VIHA was declared to be in substantial default of its annual contributions contract (ACC) dated July 12, 1996 with HUD. VIHA was placed in receivership and HUD assumed possession of all assets, projects, and programs.

Given the nature of VIHA's operations and the significance of its relationship with the Government, management believes that its exclusion from the financial reporting entity would cause the Government's basic financial statements to be incomplete and misleading. Accordingly, VIHA continues to be reported as a major component unit of the Government even though the Government no longer appoints its commissioners.

Virgin Islands Port Authority (VIPA)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

Virgin Islands Water and Power Authority (WAPA)

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

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

VIGHHFC was created by Act No. 6012 on August 23, 1994 and became active on May 1, 1999, with the purpose of providing healthcare services and hospital facilities to the people of the U. S. Virgin Islands. The powers of VIGHHFC are exercised by a board of directors consisting of 15 members as follows: the Director of the Office of Management and Budget, the Commissioner of Finance, and 13 other members appointed by the Governor with the advice and consent of the Legislature. The VIGHHFC is composed of the Roy L. Schneider Hospital located in St. Thomas and the Juan F. Luis Hospital and Medical Center located in St. Croix. Both entities issue separate audited financial statements. The Roy L. Schneider Hospital's financial statements include its component units: the Myra Keating Smith Community Health Center ("Health Center") of St. John and the Charlotte Kimelman Cancer Institute ("Cancer Institute") on St. Thomas. The Health Center and Cancer Institute are legally separated organizations for which the Roy L. Schneider Hospital is financially accountable.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

University of the Virgin Islands (the University)

The University was organized as an instrumentality of the Government under Act No. 852 on March 16, 1962, in accordance with Section 16(a) of the Revised Organic Act of 1954, as amended. The purpose of the University is the stimulation and utilization of the intellectual resources of the people of the U.S. Virgin Islands and the development of a center of higher education. The powers of the University are exercised by a board of trustees consisting of 17 members as follows: Chairman of the Board of Education, Commissioner of Education, and the President of the University, all serving as members ex-officio, 9 other members appointed by the Governor with the advice and consent of the Legislature, two other members elected by the board of trustees, one representative of the student body, one alumnus of the University, and another representative of the teaching faculty. The University was not organized as a self-sustaining entity and therefore receives substantial financial and other support from the Government.

The University's financial statements include its component units: The Foundation for the University of the Virgin Islands and The Reichhold Foundation. The Foundation for the University of the Virgin Islands is a not-for-profit corporation whose purpose is to assist and support the University in accomplishing its charitable and educational mission. The Reichhold Foundation is a not-for-profit corporation that supports the arts and provides financial assistance in operating the Reichhold Center for the Arts on St. Thomas.

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units

Virgin Islands Economic Development Authority (EDA)

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

Magens Bay Authority (MBA)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Housing Finance Authority (VIHFA)

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

Virgin Islands Public Television System (VIPTS)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Waste Management Authority (VIWMA)

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

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

RTPark was established as a public, autonomous instrumentality of the Government by Act 6502 on February 21, 2002, as amended, by Act 6725, the Protected Cell Amendments Act of 2005. RTPark was organized for internet commerce and technology, providing an enabling environment for research, development, business incubation and technology-driven businesses. RTPark is governed by a Board of Directors consisting of seven members, including the Chairman of the Board of Trustees of the University, the President of the University, two trustees selected from among the Board of Trustees of the University, and three members selected by the Governor.

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

Administrative Offices

Virgin Islands Housing Authority
402 Estate Anna's Retreat
PO Box 7668
St. Thomas, VI 00801

Virgin Islands Port Authority
PO Box 301707
St. Thomas, VI 00803

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

Virgin Islands Water and Power Authority
PO Box 1450
St. Thomas, VI 00804

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

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

Virgin Islands Economic Development Authority
1050 Norre Gade #5
St. Thomas, VI 00802

Magens Bay Authority
PO Box 10583
St. Thomas, VI 00802

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

Virgin Islands Public Television System
PO Box 7879
St. Thomas, VI 00801

Virgin Islands Waste Management Authority
#1 La Grande Princesse, Suite BL1
Christiansted, VI 00820

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

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

All financial statements of the discretely presented component units have a fiscal year-end of September 30, 2009, except for WAPA and VIHA that have a year-end of June 30, 2008 and December 31, 2007, respectively.

(c) Fiduciary Component Unit

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

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

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(c) Fiduciary Component Unit (continued)

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the PG and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net assets (deficit) presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets or net deficit. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue when as all eligibility requirements have been met.

(b) Governmental Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers most revenue to be available if collected within 90 days of the end of the current fiscal year-end. Specifically, gross receipts taxes, property taxes, and income taxes are considered to be available if collected within 30, 60, and 90 days, respectively, after the end of the current fiscal year-end. Grant revenue is considered to be available if collected within the 12 months after the end of the current fiscal year-end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

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

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

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

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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

Each proprietary fund has the option under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* to elect and apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless these conflict with a GASB pronouncement. The PG and most blended and discretely presented component units have elected not to apply FASB pronouncements issued after November 30, 1989 for its proprietary fund types. VIPA has elected to follow the FASB's pronouncements issued after November 30, 1989.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Fund Accounting

The Government reports its financial position and results of operations in funds, which are considered separate accounting entities and discrete presentations of those component units, which are not required to be blended. The operations of each fund are accounted for within a set of self-balancing accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with legal, financial, and contractual provisions. GASB No. 34, *Basic Financial Statements – and Management's Discussions and Analysis – for State and Local Governments*, establishes criteria (percentage of the assets, liabilities, revenue, or expenditures/expenses of either fund category or the governmental and enterprise funds combined) for the determination of major funds. Indirect costs are automatically allocated and reported in the program expense for each fund. Nonmajor funds are combined in a single column in the fund financial statements. The Government reports the following major funds:

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(a) Governmental Funds

The Government reports the following major governmental funds:

- General Fund – The general fund is the Government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- PFA Debt Service Fund – The PFA debt service fund accounts for the resources accumulated, and payments made, for principal and interest on long-term general obligation debt issued by PFA on behalf of the Government.
- PFA Capital Projects Fund – The PFA capital projects fund accounts for bond proceeds of debt issued by the PFA on behalf of the Government. The bond proceeds have been designated for certain necessary public safety and capital development projects which are accounted for in this fund.

(b) Proprietary Funds

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

- West Indian Company – WICO, a component unit of PFA, accounts for the activities of a cruise ship pier and shopping mall complex on the island of St. Thomas.

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(c) Fiduciary Funds

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

- Pension Trust Fund – The pension trust fund accounts for the activities of GERS, which accumulates resources for pension benefit payments to qualified employees.
- Agency Fund – The agency fund is custodial in nature (assets equal liabilities) and does not involve measurement of the results of operations.

Cash and Cash Equivalents

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

Cash equivalents of the proprietary funds and discretely presented component units consist of demand accounts, money market accounts, certificates of deposit with maturities of not more than 90 days from the date of acquisition, short-term U.S. government and its agencies' obligations, and repurchase agreements with a U.S. commercial bank maturing within three months and collateralized by U.S. government obligations. Cash and cash equivalents of the discretely presented component units are maintained in separate bank accounts from those of the PG, in their own names. By law, banks, or trust companies designated as depository of public funds of the Government are to maintain corporate surety bond or pledge collateral satisfactory to the Commissioner of Finance to secure all governmental funds deposited.

Investments

The PG and its component units follow the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. GASB Statement No. 40 establishes and modifies the following disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk.

1. Summary of Significant Accounting Policies (continued)

Investment Policies

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

- ***Primary Government Investment Policies –*** Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. As of September 30, 2009, the General Fund, a non-major governmental fund, and an agency fund had invested in certificates of deposit with two local banks. Investments are reported at fair value.

- ***PFA Investment Policies*** – Under GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for Most External Investment Pools*, investments of the PFA are reported at fair value. Various bond resolutions of the PFA restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. The PFA handles investments for two major governmental funds of the Government: the PFA debt service fund and the PFA capital projects fund.

- ***Tobacco Settlement Financing Corporation Investment Policies*** – Various bond resolutions of this blended component unit restrict investments to direct obligations of the U.S. Government, territories, possessions and states, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The PFA has retained investment managers and investments are held in trust by a commercial bank on behalf of the PFA. Investments are reported at fair value in the non-major governmental fund of the Government.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

- ***West Indian Company Limited Investment Policies*** – This blended business-type major fund of the Government maintains an investment policy that 1) limits investments in bonds to a maximum remaining maturity of 30 years (or estimated average life on mortgage-backed issues), 2) limits fixed income securities to a maximum of 40% and a minimum of 30% of the overall assets of the WICO portfolio, 3) limits corporate bond exposure to 45% of the fixed income portfolio, and 4) has no provision which limits or restricts investments in U.S. Government Treasury or Agency issues. WICO reports investments at fair value.

- ***Pension Trust Fund Investment Policies*** – The board of trustees of GERS have enacted policies that limit investments in certain investment categories and provide requirements for the institutions with which investment transactions may be entered into. Under those policies, GERS may invest in U.S. Government and agencies obligations, bonds or notes of any state, territory or possession of the United States, municipal bonds and obligations, foreign bonds, bonds of domestic railroad corporations, public utility bonds, industrial corporate bonds or trust certificates, common and preferred shares of foreign and domestic corporations, mutual funds, mortgage or personal loans to GERS members or retirees, and mortgage and asset-backed securities. Investments in bonds are subject to rating restrictions of BBB and may not exceed 2% of the portfolio. Investments in stock of a single corporation may not exceed 1% of the market value of the fund, or exceed 1% of the outstanding stock of the corporation. The aggregate amount of investments in stock may not exceed 60% of the total investments of GERS. Investment in foreign stock should be limited to 10% of the market value of the total investments of GERS. Any investment of 20% or more of the aggregate value of the portfolio must be approved by two-thirds of the membership of the board of trustees. The investments are administered by several professional investment managers and are held in trust by a commercial bank on behalf of GERS.

  GERS is authorized to invest in life settlement policy contract investments provided the investment is in a group of life insurance policies, with a minimum number of 100 measured lives; the face value of any single policy investment does not exceed $5.0 million or 2% of the aggregate face value of policy investments, and; the aggregate face value on any individual life does not exceed the greater of $10.0 million or 1% of the aggregate face value of policies purchased as investments by GERS.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

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

Investment by GERS in a shopping and pier complex on the island of St. Thomas is carried at original purchase price plus appreciated value. Investment by GERS in administrative facilities on the islands of St. Thomas and St. Croix are carried at historical cost, net of accumulated depreciation.

- ***WAPA and VIPA Investment Policies*** – These major component units are authorized under bond resolutions and the V.I. Code to invest in open accounts, time deposits, certificates of deposit, repurchase agreements, obligations of the United States government, and obligations of any state within the United States, mutual funds, and corporate commercial paper. Investments are reported at fair value.

- ***The University Investment Policies*** – The board of trustees of this major component unit is responsible for the management of the University's investments which consist of U.S. Government securities and securities backed by the U.S. Government or its agencies and instrumentalities, common and preferred stocks, and mutual funds. Currently, the University's policies do not address risks associated with investments.

- ***VIGHHFC Investment Policies*** – The board of trustees of this major component unit have not developed a formal investment policy. At September 30, 2009, investments were comprised of certificates of deposit which were reported at fair value, and a 40% interest in a U.S. Virgin Islands corporation that provides radiology services. The investment in the U.S. Virgin Islands corporation is accounted for under the equity method.

- ***VIHA Investment Policies*** – This major component unit is required by the U.S. Department of Housing and Urban Development ("HUD") to invest excess funds in obligations of the United States, certificates of deposit, or any other federally insured investment. HUD requires that deposits be fully collateralized at all times, and may be held by an unaffiliated bank or trust company for the account of the VIHA.

1. Summary of Significant Accounting Policies (continued)

Receivables

Taxes receivable represent amounts owed by taxpayers for individual and corporate income taxes, gross receipts taxes and real property taxes. Tax revenue is recognized in the governmental fund financial statements when they become both measurable and available based on actual collections during the months subsequent to the fiscal year end.

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

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

Subject to the provisions of the V.I. Code, and subject to rules and regulations prescribed by the board of trustees of GERS, members of GERS have the right to obtain loans from GERS to finance a home, automobile, or other personal needs. The maximum mortgage loan that could be granted to members who have been contributing to GERS for at least five years is $350,000. The interest rate on new first mortgages was 8% and on second mortgages, 9% throughout the year. Members may also borrow up to $50,000 to buy land.

Members who have contributed to GERS for at least five years can borrow up to $18,000 for the purchase of an automobile. Auto loans bear interest at rates that range between 8.75% and 9.50% with a maximum term of five years. Active members may also borrow up to 75% of their contributions paid into GERS to a maximum borrowing of $50,000 as a personal loan. The interest rate offered on personal loans was 8.00% to 8.50% for the year. Retired members may qualify for personal loans up to $10,000 at the same interest rates as active members; however, effective fiscal year 2009, retirees have the option of refinancing their personal loan provided the original amount is paid down by at least 50%.

Member loans in GERS are valued at the outstanding loan principal balance less an allowance for estimated loan losses.

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

1. Summary of Significant Accounting Policies (continued)

Restricted Assets

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

Capital Assets

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

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (i) $5,000 for personal property with a useful life of five years; (ii) $50,000 for buildings and building improvements with estimated useful lives of 40 and 20 years, respectively; (iii) $100,000 for land improvements with an estimated useful life of 20 years; and (iv) $200,000 for infrastructure with an estimated useful life of 30 years. The value of all land acquired is capitalized.

Capital assets purchased or acquired are carried at historical cost or normal cost. The normal costing method to estimate cost based on replacement cost indexed by a reciprocal factor of the price increase from the appraisal date to the actual or estimated acquisition date was used to estimate the historical cost of certain land, buildings, and building improvements because invoices and similar documentation was no longer available in certain instances. Donated capital assets are recorded at fair value at the time of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs are capitalized during the construction period only for business-type activities and proprietary component units. The costs of routine maintenance and repairs that do not add value to the assets or materially extend asset lives are expensed as incurred.

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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

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

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

The capital assets of the component units are recorded in accordance with the applicable GASB and FASB statements and under their own individual capitalization thresholds. The estimated useful lives of capital assets reported by the component units are (i) 7 to 50 years for buildings and building improvements; (ii) 20 to 40 years for airports and marine terminals; and (iii) 3 to 20 years for vehicles and equipment.

Tax Refunds Payable

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

Deferred and Unearned Revenue

Deferred revenue at the governmental fund level arises when potential revenue neither meets measurable nor available criteria for revenue recognition in the current period. Deferred revenue also arises when resources are received before the Government has a legal claim to them. In subsequent periods, when the revenue recognition criteria are met, or when the Government has a legal claim to the resources, deferred revenue is reduced from the balance sheet and the revenue is recognized. Unearned revenue at the government-wide and proprietary fund levels arises only when the Government receives resources before it has a legal claim to them or revenue recognition criteria have not been met.

1. Summary of Significant Accounting Policies (continued)

Long-term Liabilities

The liabilities reported in the government-wide financial statements include the Government's bonds, long-term notes, and other long-term liabilities including: compensated absences, retroactive union arbitration salaries, landfill closure and post closure, arbitrage liabilities, workers compensation loss claims, postemployment benefit costs and legal claims. Bond premiums and discounts, losses incurred on bond refundings, and debt issuance costs are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts and deferred refunding losses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Losses incurred on bond refundings are not recognized in the fund financial statements as the corresponding liability for the bonds is only recorded in the government-wide financial statements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Balance

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Net Assets

Net assets are reported in three categories:

- ***Invested in Capital Assets, Net of Related Debt*** – These consist of capital assets, net of accumulated depreciation and amortization, and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets. Debt pertaining to significant unspent debt proceeds is not included in the calculation of invested in capital assets, net of related debt. The unspent portion of the debt is presented, net of the related debt, as restricted net assets for capital projects.

1. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

- ***Restricted Net Assets*** – These result when constraints placed on net assets' use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

- ***Unrestricted Net Assets*** – These consist of net assets, which do not meet the definition of the two preceding categories. Unrestricted net assets often are designated to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

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

Compensated Absences

The vacation policy of the Government provides for the accumulation of four, six, or eight hours for each full biweekly pay period depending on the time of entry into government service. At the beginning of each calendar year, vacation leave is limited to 480 hours (60 days). However, the excess of 480 hours is considered by GERS for service credit towards the employees' retirement. This vacation policy does not apply to professional educational personnel of the Virgin Islands Department of Education, who receive compensation during the school breaks. Upon retirement, an employee receives compensation for unused vacation leave at the employee's base pay rate.

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

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

1. Summary of Significant Accounting Policies (continued)

Interfund and Intra-entity Transactions

The Government has the following types of transactions among funds:

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

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

Risk Management

With some exceptions, the Government does not carry general casualty or liability insurance coverage on its properties or the acts of its employees, relying instead on self-insurance and/or statutory liability limitations. However, as a result of an agreement with the Federal Emergency Management Agency (FEMA), with respect to properties and structures damaged by Hurricane Hugo and repaired with federal disaster assistance funds, the Government has obtained insurance for certain hospitals, schools, and other insurable public buildings that were repaired with such federal assistance. The Government purchases commercial insurance covering physical losses or damages against its property. The limit of liability for all risks, excluding earthquake, windstorm, and flood, is $1 million for each and every occurrence except for windstorm and flood losses, which has a $45 million limit. For physical losses arising from earthquake, the insurance policy has a limit of $100 million for each and every occurrence and in the annual aggregate.

The Government does not maintain accounting records in support of individual claim liabilities or for claims incurred but not reported (IBNR). Accordingly, medical malpractice claims are accounted for on a cash basis. Therefore, the basic financial statements do not include a liability for medical malpractice claims outstanding, including related IBNR, as of September 30, 2009, as required by GAAP.

1. Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Requirements

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

GASB Statement Number		Adoption Required in Fiscal Year
51	Accounting and Financial Reporting for Intangible Assets	2010
53	Accounting and Financial Reporting for Derivative Instruments	2010
54	Fund Balance Reporting and Governmental Fund Type Definitions	2011
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2012
58	Accounting and Financial Reporting for Chapter 9 Bankruptcies	2010
59	Financial Instruments Omnibus	2011
60	Accounting and Financial Reporting For Service Concession Arrangements	2013
61	The Financial Reporting Entity; Omnibus- An Amendment of GASB Statements No. 14 and 34	2013
62	Codification of Accounting and Financial Reporting Guidance Contained in pre-November 30, 1989 FASB and AICPA Pronouncements	2013

The impact of these statements has not yet been determined by the Government.

2. Component Units

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

- Virgin Islands Housing Authority
- Virgin Islands Port Authority
- Virgin Islands Water and Power Authority
- Virgin Islands Government Hospital and Health Facilities Corporation
- University of the Virgin Islands
- Virgin Islands Economic Development Authority
- Magens Bay Authority
- Virgin Islands Housing Finance Authority
- Virgin Islands Public Television System
- Virgin Islands Waste Management Authority
- University of the Virgin Islands Research and Technology Park Corporation

2. Component Units (continued)

Condensed financial information as of September 30, 2009 of all discretely presented component units follows (expressed in thousands):

			Virgin Islands Water and Power Authority		Virgin Islands Government Hospital and Health Facilities Corporation				
Information on net assets	**Virgin Islands Housing Authority**	**Virgin Islands Port Authority**	**Electric System**	**Water System**	**Roy L. Schneider Hospital**	**Juan F. Luis Hospital**	**University of the Virgin Islands**	**Other Entities**	**Total Component Units**
Assets:									
Current assets	$ 8,760	$ 28,789	$ 63,184	$ 11,014	$ 23,814	$ 13,817	$ 46,427	$ 49,829	$ 245,634
Due from primary government	–	–	13,039	2,399	–	–	876	11,625	27,939
Due from federal government	–	600	–	–	–	671	2,328	–	3,599
Restricted assets	3,543	10,270	49,075	9,574	202	297	25,436	18,080	116,477
Capital assets, net	61,725	245,489	266,014	60,218	67,137	48,225	53,013	81,613	883,434
Deferred expenses	13	1,264	42,922	6,484	–	–	3,991	45	54,719
Total assets	74,041	286,412	434,234	89,689	91,153	63,010	132,071	161,192	1,331,802
Liabilities:									
Current liabilities	4,974	7,739	72,828	5,083	19,380	25,561	14,270	9,288	159,123
Due to primary government	–	–	–	–	24,810	39,947	–	4,599	69,356
Due to federal government	–	–	5,047	–	–	–	–	–	5,047
Bonds payable	–	36,639	193,305	25,944	–	–	41,414	3,030	300,332
Loans payable	–	1,474	66,751	–	–	–	1,843	5,309	75,377
Other noncurrent liabilities	10,612	–	10,915	2,560	352	478	90	31,477	56,484
Total liabilities	15,586	45,852	348,846	33,587	44,542	65,986	57,617	53,703	665,719
Net assets (deficit):									
Invested in capital assets, net of related debt	54,844	208,850	92,764	34,575	66,784	47,330	24,457	71,740	601,344
Restricted	652	10,270	22,098	8,883	457	297	34,727	28,601	105,985
Unrestricted (deficit)	2,959	21,440	(29,474)	12,643	(20,630)	(50,603)	15,270	7,149	(41,246)
Total net assets	$ 58,455	$ 240,560	$ 85,388	$ 56,101	$ 46,611	$ (2,976)	$ 74,454	$ 107,490	$ 666,083

2. Component Units (continued)

Information on statements of activities	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions	Total Component Units
Virgin Islands Housing Authority	$ 44,517	$ 5,709	$ 26,389	$ 7,601	$ (4,818)
Virgin Islands Port Authority	55,195	36,412	–	4,282	(14,501)
Virgin Islands Water and Power Authority:					
Electric System	295,176	267,550	–	2,917	(24,709)
Water System	29,822	38,876	–	736	9,790
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	93,401	53,809	29,658	255	(9,679)
Juan F. Luis Hospital	76,747	32,670	26,412	4,029	(13,636)
University of the Virgin Islands	73,298	17,183	51,537	3,192	(1,386)
Other component units	63,503	7,096	49,873	6,095	(439)
Total activities	$ 731,659	$ 459,305	$ 183,869	$ 29,107	(59,378)
General revenue:					
Interest and other					10,929
Changes in net assets					(48,449)
Net assets at beginning of year *(as restated)*					714,532
Net assets at end of year					$ 666,083

The account due to primary government at September 30, 2009 was approximately $69 million. The account due from component units on the Statement of Net Assets (Deficit) is shown net of an allowance for doubtful accounts of approximately $57 million, which represents accounts with balances outstanding more than one year.

3. Stewardship, Compliance, and Accountability

Budgetary Process and Control

The V.I. Code requires the Governor to submit an annual balanced executive budget to be adopted by the Legislature for the ensuing fiscal year. The Governor is required by law to submit to the Legislature the annual balanced executive budget no later than May 30. The annual balanced executive budget is prepared on a GAAP basis, except for encumbrances, which are reported as expenditures for budget reporting purposes, by the Virgin Islands Office of Management and Budget (OMB) working in conjunction with other Government offices and agencies. If the annual executive budget has not been approved before the commencement of any fiscal year, then the appropriations for the preceding fiscal year, insofar as they may be

3. Stewardship, Compliance, and Accountability (continued)

Budgetary Process and Control (continued)

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

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

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

3. Stewardship, Compliance, and Accountability (continued)

Budget/GAAP Reconciliation

The following schedule presents a comparison of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference in the excess (deficiency) of revenue and net other financing sources over expenditures for the year ended September 30, 2009 is presented below (expressed in thousands):

Deficiency of revenues and net other financing sources over expenditures	$ (282,253)
Entity difference – excess of revenues and net other fincning over expenditures – activities with budgets not legally adopted	79,642
Deficiency of revenues and net other financing sources over expenditures – GAAP basis (net change in fund balance)	$ (202,611)

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

4. Cash and Cash Equivalents

Primary Government

At September 30, 2009, the PG held $228.3 million in unrestricted cash and cash equivalents, and $2.2 million in restricted cash and cash equivalents. All of the PG's bank balances were fully collateralized.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2009, GERS held $66.8 million in money market accounts, $27.1 million in interest-bearing bank accounts, and $16.5 million in operational accounts.

4. Cash and Cash Equivalents (continued)

Component Units

At September 30, 2009, component units held $76.3 million in unrestricted cash and cash equivalents and $57.7 million in restricted cash and cash equivalents, of which $9.8 million was not insured, bonded or collateralized as required for public funds of the Government.

5. Investments

Primary Government Investments

Following is a summary of the investments of the PG, categorized by investment type and maturity as of September 30, 2009:

Primary Government Investments
(in thousands)

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	Over 5 Years
Investments with contractual maturities				
Certificates of Deposit	$ 13,593	$ 13,593	$ –	$ –
Portfolio investments				
Commercial Paper	64,933	64,452	–	481
U.S. Government Agencies & Notes	200,027	119,679	80,348	–
Total investments with contractual maturities	278,553	$ 197,724	$ 80,348	$ 481
Investments without contractual maturities				
Money Market & Mutual Funds	196,568			
Total Primary Government Investments	$ 475,121			

5. Investments (continued)

Primary Government Investments (continued)

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

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

At September 30, 2009, the PG's investments in money market funds were rated AAAm by Standard & Poor's, and Aaa/AAA by Moody's Investor Service; PG's investment in commercial securities were rated A-1+, AA+ or higher by Standard & Poor's, and Aa2 by Moody's Investor Services; and the PG's investment in U.S. government agencies were rated AAA by Standard & Poor's and Aaa by Moody's Investor Services.

Concentration of Credit Risk – The PG places no limit on the amount that may be invested in one issuer. At September 30, 2009, more than 5% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (18.67%), Goldman Financial Securities Money Market #474 (15.75%), and FCAR Owner Trust Disc. C.P. (8.71%).

Custodial Credit Risk – The PG does not have a custodial risk policy. This is the risk that the PG will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2009, $461.5 million of investments were held in the name of The Bank of New York Trust Company, N.A, as trustee for the Government.

5. Investments (continued)

Pension Trust Fund Investments

Following is a summary of pension trust fund investments as of September 30, 2009:

Pension Trust Fund Investments
(In thousands)

	Fair Value	Maturity (in years) Less Than 1 Year	1 to 5 Years	6 to 10 Years	More Than 10 Years
Investments with contractual maturities					
US government and agency obligations	$ 10,205	$ –	$ –	$ 10,162	$ 43
US Treasury notes	61,300	–	53,359	7,941	–
US Treasury bonds	25,648	–	–	5,495	20,153
Municipals	5,526	–	–	488	5,038
Corporate obligations	139,195	6,229	61,005	29,372	42,589
Foreign bonds	12,236	–	4,423	5,467	2,346
Government obligations - foreign	48,025	–	15,969	13,160	18,896
Mortgage and asset backed securities	94,409	1,900	1,274	1,954	89,281
Total investments with contractual maturities	396,544	$ 8,129	$ 136,030	$ 74,039	$ 178,346
Investments without contractual maturities					
Equity Securities					
Common stocks - U.S.	447,882				
Common stocks - foreign	77,236				
Preferred stocks - foreign	89				
Real Estate Investments					
Real estate investment trusts	2,924				
Havensight Mall - US Virgin Islands	66,600				
GERS Complex - US Virgin Islands	22,600				
Limited partnership	43,916				
Securities lending short-term collateral investment pool	184,538				
Mutual funds	31,314				
Total pension fund investments	$ 1,273,643				

5. Investments (continued)

Pension Trust Fund Investments (continued)

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

Credit Risk **–** GERS investment policy is designed to minimize credit risk by restricting authorized investments to only those investments permitted by statute, subject to certain additional limitations. These additional limitations consist of prohibitions against investments in derivative securities, options, futures or short positions. GERS investment policy allows investments in mortgage pass-through securities. The credit ratings of GERS debt and equity securities include:

5. Investments (continued)

Pension Trust Fund Investments (continued)

Pension Trust Fund Investment Credit Ratings
(in thousands)

		Credit Ratings	
	Fair Value	Standard & Poor	Moody's
US government and agency obligations	$ 9,882	AAA	AAA
US government and agency obligations	323	BA1	BBB-
US Treasury notes and bonds	86,948	AAA	AAA
Corporate obligations	139,195	BBB- to AAA	CAA2 to AAA
Foreign bonds	12,236	CC to AAA	CA to AAA
Government obligations - foreign	48,025	AAA	AAA
Municipals	3,017	A	BAA1
Municipals	488	A+	A1
Municipals	574	AAA	AA2
Municipals	1,447	BBB	BAA3
Mortgage and asset backed securities	20,895	CCC to AA+	CAA3 to AA1
Mortgage and asset backed securities	65,067	AAA	AAA
Mortgage and asset backed securities	8,447	Not Rated	Not Rated
Common stocks- US	447,882	Not Rated	Not Rated
Common stocks - foreign	77,236	Not Rated	Not Rated
Preferred stocks - foreign	89	Not Rated	Not Rated
Real estate investment trust	2,417	Not Rated	Not Rated
Real estate investment trust	507	B-	Not Rated
Real estate holdings - US Virgin Islands	89,200	Not Rated	Not Rated
Limited partnership	43,916	Not Rated	Not Rated
Securities lending short-term collateral investment pool	184,538	Not Rated	Not Rated
Mutual funds	31,314	Not Rated	Not Rated
Total investments	$ 1,273,643		

5. Investments (continued)

Pension Trust Fund Investments (continued)

Custodial Credit Risk – The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on-loan secured by non-cash collateral, the entire investment portfolio of GERS was held with a single third-party custodian on behalf of GERS as of September 30, 2009.

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

As of September 30, 2009, $137.9 million of GERS' portfolio was held in foreign currencies, with $46.8 million held in Euro, $22.1 million held in pound sterling, $17.4 million held in Australian dollars, $14.8 million held in Japanese yen, $8 million held in Swiss francs, $7.2 million held in Swedish krona, $6.1 million held in Canandian dollars, $5.8 million held in Norwegian krone, $3.4 million held in Hong Kong dollars, and $6.3 million in other currencies. GERS entered into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates, and to facilitate the settlement of foreign security transactions. Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are reported with interest, dividends, and other income or losses reported at fair value. During the fiscal year ended September 30, 2009, GERS reported $48.6 million in forward currency purchases, $49.5 million in forward currency sales, and a foreign exchange gain of $4.8 million.

5. Investments (continued)

Pension Trust Fund Investments (continued)

Securities Lending Transactions **–**The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2009 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were neither such violations during fiscal year 2009 nor losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the security for domestic borrowers and 105% for foreign borrowers at the inception of the securities lending transaction. Such collateral should be kept at a minimum of 100% of the market value of the security for all borrowers throughout the outstanding period of the transaction. At September 30, 2009, approximately $184.8 million of U.S. government and agency securities, fixed income, and equity corporate securities were on loan. The cash collateral received with a corresponding liability of an equal amount is recorded in the statement of fiduciary net assets. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2009, such investment pool had a weighted average maturity of 30 days and an average expected maturity of 271 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

5. Investments (continued)

Component Unit Investments

Following is a summary of component unit investments and maturities as of September 30, 2009:

Component Unit Investments
(in thousands)

		Maturity (in years)			
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
Investments with contractual maturities					
Certificates of deposit	$ 4,140	$ 531	$ 3,609	$ –	$ –
Mortgage backed securites	3,627	–	–	–	3,627
Corporate bonds	1,109	–	–	–	1,109
U.S. Government agencies and notes	50,123	33,429	16,456	–	238
Total investments with contractual maturities	58,999	$ 33,960	$ 20,065	$ –	$ 4,974
Investments without contractual maturities					
Common stock	2,659				
Mutual funds	27,812				
Other investments	1,211				
Total component unit investments	$ 90,681				

5. Investments (continued)

Component Unit Investments (continued)

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

Credit Risk – The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the component units, as described in Note 1. The University of the Virgin Islands' investments include corporate bonds amounting to $1.1 million with a rating of A-AAA by Standard & Poor's.

Custodial Credit Risk – The component units of the Government do not have custodial credit risk policies. This is the risk that the component unit will not be able to recover the value of its investments that are held in the possession of an outside party. At September 30, 2009, $2 million of investments held by VIPA were held in the name of HSBC Bank USA as a trustee on behalf of VIPA.

6. Receivables

Primary Government Receivables

Receivables for governmental funds at September 30, 2009 consist of the following (expressed in thousands):

	General	PFA Debt Service	Total
Income taxes	$ 181,719	$ –	$ 181,719
Real property taxes	192,107	–	192,107
Gross receipts taxes	–	106,641	106,641
Tax receivables	373,826	106,641	480,467
Less allowance for doubtful accounts	(149,943)	(64,478)	(214,421)
Net tax receivables	$ 223,883	$ 42,163	266,046
Other long-term receivables – tobacco settlement rights and other			1,888
Total receivables reported in the statement of net assets (deficit)			$ 267,934

6. Receivables (continued)

Primary Government Receivables (continued)

The Naval Appropriations Act created a separate tax structure for the U.S. Virgin Islands that mirrors the Internal Revenue Code of 1986, as amended. Income taxes are due from every corporation, partnership, individual, association, estate, or trust that meets the filing requirements of the U.S. Internal Revenue Code. A U.S. taxpayer who is a permanent resident of the U.S. Virgin Islands satisfies his Virgin Islands income tax obligations by filing his return with and paying income taxes to the Government. Virgin Islands residents are taxed by the Virgin Islands on their world-wide income. A nonresident of the U.S. Virgin Islands pays income taxes on his U.S. Virgin Islands source income to the Government. The revenue is recognized in the general fund in the fiscal period for which the income tax return was filed. The revenue from income tax withholding and estimated payments are recognized in the general fund as collected, net of estimated tax refunds.

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

Partnership and trust income taxes are due by April 15 of the following year for which the income tax was levied. Trust income taxes must be paid by the tax filing date.

Property taxes are assessed each calendar year on all taxable real property located in the U.S. Virgin Islands. The receivable is recognized, net of estimated uncollectable amounts, in the general fund in the fiscal period for which the tax was assessed. The revenue is recognized in the general fund in the fiscal period for which the property tax is levied, provided the tax is collected within 60 days subsequent to fiscal year-end, unless the facts justify a period greater than 60 days. Receivables recognized before that period are recorded as deferred revenues.

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

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

6. Receivables (continued)

Primary Government Receivables (continued)

For businesses with gross receipts of $120,000 per annum or less, gross receipts taxes are levied on an annual basis, based on 4% of gross receipts in excess of $9,000. Businesses with annual gross receipts greater than $120,000 and up to $225,000, are levied on a monthly basis based on 4% of gross receipts in excess of $9,000 per month. Businesses with annual gross receipts of more than $225,000, lose the monthly exemption and are levied on a monthly basis of 4% of gross receipts. The gross receipts tax is due within 30 calendar days following the last day of the calendar month collected. Effective May 1, 2010, the PG increased the gross receipts tax rate to 4.5%.

Component Unit and Pension Trust Fund Receivables

Component unit receivables at September 30, 2009, consist of the following (expressed in thousands):

Utility service charges	$ 19,080
Port fees	4,085
Students	1,307
Patients	23,894
Other	15,781
Total	$ 64,147

Loans and advances receivable, net at September 30, 2009, consist of the following (expressed in thousands):

	Fiduciary Funds Pension Trust	Component Units
Mortgage loans	$ 10,875	$ -
Personal loans	121,932	-
Other loans and advances	177	50
Subtotal	132,984	50
Less allowance for uncollectible accounts	(291)	(50)
Loans and advances receivable, net	$ 132,693	$ -

7. Deferred Revenues

The components of deferred revenues for governmental funds as of September 30, 2009 consist of the following (expressed in thousands):

Property tax	$ 125,493
Matching excise tax	37,615
Income tax	76,847
	$239,955

8. Interfund Transactions

Interfund Transfers

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfers to the general fund from other governmental funds include a $85.3 million transfer from the PFA debt service fund representing gross receipt tax revenue in excess of bond service requirements, and a $18.5 million transfer from a non-major debt service fund representing property tax revenue no longer reserved for debt service requirements.

Significant transfers made from the general fund include a transfer of $7.7 million to the emergency molasses fund (a non-major governmental fund) and a transfer of $4 million to the St. Croix capital improvement fund (a non-major governmental fund). Significant transfers, not previously mentioned, from the PFA debt service fund (a major fund) include transfers of $10.2 million to the PFA special revenue fund (a non-major governmental fund), representing interest earned from unexpended bond proceeds.

8. Interfund Transactions (continued)

Interfund Transfers (continued)

Interfund transfers for the year ended September 30, 2009 consisted of the following (expressed in thousands):

Transfer to	General	PFA Debt Service	PFA Capital Projects	Nonmajor Governmental	West Indian Company	Total
General	$ –	$ 85,304	$ –	$ 18,500	$ 700	$ 104,504
PFA capital projects	–	–	–	401	–	401
Nonmajor governmental	12,886	10,166	2,345	–	–	25,397
Total	$ 12,886	$ 95,470	$ 2,345	$ 18,901	$ 700	$ 130,302
Transfer from						
General	$ –	$ –	$ –	$ 12,886	$ –	$ 12,886
PFA debt service	85,304	–	–	10,166	–	95,470
PFA capital projects	–	–	–	2,345	–	2,345
Nonmajor governmental	18,500	–	401	–	–	18,901
West Indian Company	700	–	–	–	–	700
Total	$ 104,504	$ –	$ 401	$ 25,397	$ –	$ 130,302

8. Interfund Transactions (continued)

Due From/To Other Funds

The following table summarizes interfund receivables and payables at September 30, 2009 (expressed in thousands):

Due from other funds	General	PFA Debt Service	PFA Capital Projects	Nonmajor Governmental	West Indian Company	Nonmajor Enterprise	Total
General	$ –	$ –	$ –	$ 3,178	$ 2,100	$ 4,229	$ 9,507
PFA Debt Service	11,983	–	–	–	–	–	11,983
PFA capital projects	–	–	–	76	–	324	400
Nonmajor governmental	10,723	–	–	–	–	2,657	13,380
Total Governmental Funds	22,706	–	–	3,254	2,100	7,210	35,270
Nonmajor enterprise	300	–	–	–	–	–	300
Total Enterprise Funds	300	–	–	–	–	–	300
Total	$ 23,006	$ –	$ –	$ 3,254	$ 2,100	$ 7,210	$ 35,570
Due to other funds							
General	$ –	$ 11,983	$ –	$ 10,723	$ –	$ 300	$ 23,006
Nonmajor governmental	3,178	–	76	–	–	–	3,254
Total Governmental Funds	3,178	11,983	76	10,723	–	300	26,260
West Indian Company	2,100	–	–	–	–	–	2,100
Nonmajor enterprise	4,229	–	324	2,657	–	–	7,210
Total Enterprise Funds	6,329	–	324	2,657	–	–	9,310
Total	$ 9,507	$ 11,983	$ 400	$ 13,380	$ –	$ 300	$ 35,570

The due from (to) other funds includes the following amounts due from the general fund: $12.0 million due to the PFA Debt Service Fund for unpaid matching funds, $3.5 million due to the emergency molasses fund (a non-major governmental fund) for unpaid appropriations, $1.4 million due to the elected governor retirement fund, and $3.5 million due to the PFA special revenue fund for unpaid matching funds.

Other balances composing the due from (to) other funds include $2.7 million owed from the bond proceeds fund (a non-major governmental fund) to the general fund.

8. Interfund Transactions (continued)

Due From/To Other Funds (continued)

The due to the general fund is mainly composed of $4 million due from the Virgin Islands Lottery, consisting primarily of 8% of the total lottery revenue that is required to be transferred to the general fund.

The due to other governmental funds includes $877 thousand due from the Virgin Islands Lottery to the pharmaceutical assistance to the aged fund and $1.46 million due from the Virgin Islands Lottery to the VI educational initiative fund consisting primarily of 15% and 25%, respectively, of total lottery revenue that is required to be transferred to these funds.

Contributions from the Virgin Islands Lottery (a non-major enterprise fund) amounted to $4.3 million, which represented contributions to the Educational Initiative Fund (a non-major governmental fund) of $2.7 million and a contribution to the pharmaceutical program fund (a non-major governmental fund) of $1.6 million.

9. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2009 include cash and cash equivalents as follows (expressed in thousands):

Restricted Assets – Proprietary Funds and Business-type Activities

Unemployment insurance funds	$	277
WICO debt service funds		1,897
Total restricted assets of proprietary funds and business-type activities	$	2,174

9. Restricted Assets (continued)

Component Units

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

Restricted Assets – Component Units

Cash and cash equivalents:		
Debt service and sinking fund requirements	$	17,010
Endowment funds		21,268
HUD project funds		3,543
Revolving loan funds		11,945
Construction funds		854
Renewal and replacement funds		765
Rehabilitation fund		992
Other		1,295
Total cash and cash equivalents		57,672
Investments:		
Debt service and sinking fund requirements		26,999
Construction funds		13,145
Endowment funds		4,168
Renewal and replacement funds		9,522
Revolving loan funds		4,840
Total investments		58,674
Other:		
Pledged funds		130
Total restricted assets of component units	$	116,476

10. Capital Assets

Primary Government

The capital assets activity for the governmental activities for the year ended September 30, 2009, is summarized as follows (expressed in thousands):

	Beginning Balance *(As Restated)*	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 186,780	$ 626	$ –	$ 187,406
Construction in progress	69,022	78,972	36,400	111,594
Total capital assets not being depreciated	255,802	79,598	36,400	299,000
Capital assets being depreciated:				
Land improvements	4,917	388	–	5,305
Infrastructure	205,990	16,363	–	222,353
Buildings and improvements	389,731	6,661	–	396,392
Machinery and equipment	106,301	18,581	–	124,882
Total capital assets being depreciated	706,939	41,993	–	748,932
Less accumulated depreciation for:				
Land improvements	2,788	226		3,014
Infrastructure	41,652	7,648		49,300
Buildings and improvements	140,197	11,810	–	152,007
Machinery and equipment	72,604	15,751	–	88,355
Total accumulated depreciation	257,241	35,435	–	292,676
Total capital assets being depreciated, net	449,698	6,558	–	456,256
Governmental activities capital assets, net	$ 705,500	$ 86,156	$ 36,400	$ 755,256

10. Capital Assets (continued)

Primary Government (continued)

Capital assets activity for the business-type activities for the year ended September 30, 2009, is summarized as follows (expressed in thousands):

	Balance	Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	$ 4,980	$ 167	$ –	$ 5,147
Construction in progress	3,314	3,257	4,931	1,640
Total capital assets not being depreciated	8,294	3,424	4,931	6,787
Capital assets being depreciated:				
Land improvements	348	–	–	348
Buildings and improvements	60,414	5,096	484	65,026
Machinery and equipment	6,925	1,573	78	8,420
Total capital assets being depreciated	67,687	6,669	562	73,794
Less accumulated depreciation for:				
Land improvements	339	–	–	339
Buildings and improvements	17,834	2,158	82	19,910
Machinery and equipment	5,229	829	79	5,979
Total accumulated depreciation	23,402	2,987	161	26,228
Total capital assets being depreciated, net	44,285	3,682	401	47,566
Business-type activities capital assets, net	$ 52,579	$ 7,106	$ 5,332	$ 54,353

The acquisition by WICO of security equipment in the amount of $564 thousand, purchased through capital lease financing, is included in capital assets being depreciated in machinery and equipment.

10. Capital Assets (continued)

Primary Government (continued)

Depreciation expense was charged to functions/programs of the PG for the year ended September 30, 2009 as follows (expressed in thousands):

Governmental activities:		
General government	$	14,881
Public safety		2,428
Health		2,109
Education		7,738
Public Housing and Welfare		352
Culture and recreation		1,250
Transportation and communication		6,677
Total depreciation expense – governmental activities	$	35,435
Business-type activities:		
WICO – depreciation	$	1,785
Other enterprise funds – depreciation		1,202
Total depreciation – business-type activities	$	2,987

10. Capital Assets (continued)

Component Units

The capital assets activity for the discretely presented component units for the year ended September 30, 2009 is summarized as follows (expressed in thousands):

	Beginning Balance (As restated)	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 136,338	$ 3,830	$ –	$ 140,168
Construction in progress	114,486	44,757	52,505	106,738
Total capital assets not being depreciated	250,824	48,587	52,505	246,906
Capital assets being depreciated:				
Buildings and improvements	1,308,746	60,947	366	1,369,327
Airport and marine terminal facilities	122,431	802	–	123,233
Personal property and equipment	105,760	11,533	125	117,168
Intangible assets	2,604	–	–	2,604
Total capital assets being depreciated	1,539,541	73,282	491	1,612,332
Less accumulated depreciation:				
Buildings and improvements	764,569	47,028	2,557	809,040
Airport and marine terminal facilities	83,740	5,552	–	89,292
Personal property and equipment	69,164	7,953	94	77,023
Intagible assets	275	174	–	449
Total accumulated depreciation	917,748	60,707	2,651	975,804
Total capital assets being depreciated, net	621,793	12,575	(2,160)	636,528
Component unit capital assets, net	$ 872,617	$ 61,162	$ 50,345	$ 883,434

10. Capital Assets (continued)

Component Units (continued)

Depreciation expense charged by each component unit for the year ended September 30, 2009 was as follows (expressed in thousands):

Virgin Islands Housing Authority	$ 4,445
Virgin Islands Port Authority	18,793
Virgin Islands Water and Power Authority:	
Electric System	19,445
Water System	3,713
Virgin Islands Government Hospital and Health Facilities Corporation:	
Roy L. Schneider Hospital	5,367
Juan F. Luis Hospital	3,731
University of the Virgin Islands	2,288
Other component units	2,925
Total depreciation expense– component units	$ 60,707

11. Long-Term Liabilities

The change in long-term liabilities for governmental activities was as follows for the year ended September 30, 2009 (expressed in thousands):

	Beginning Balance *as restated*	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Bonds payable:						
1998 Series Revenue and Refunding Bonds	$ 412,875	$ –	$ (17,370)	$ 395,505	$ 18,480	$ 377,025
1999 General Obligation Bonds, Series A	1,740	–	(1,140)	600	600	–
1999 Series A Revenue Bonds	99,825	–	(5,900)	93,925	6,230	87,695
2001 Series A Tobacco Bonds	19,940	–	(1,680)	18,260	1,100	17,160
2002 Series Garvee Bonds	3,475	–	(3,475)	–	–	–
2003 Series A Revenue Bonds	259,045	–	(3,230)	255,815	3,360	252,455
2004 Series A Revenue Bonds	85,595	–	(3,285)	82,310	3,450	78,860
2006 Series A Tobacco Bonds	7,290	–	–	7,290	–	7,290
2006 Series A Revenue Bonds	218,985	–	(1,490)	217,495	1,530	215,965
2009 Series A Revenue Bonds	–	250,000	–	250,000	–	250,000
Total bonds payable	1,108,770	250,000	(37,570)	1,321,200	34,750	1,286,450
Plus (less):						
Deferred costs on refundings	(15,862)	–	756	(15,106)	(755)	(14,351)
Bonds premium	16,955	–	(1,053)	15,902	836	15,066
Bonds discount	(5,589)	(2,506)	989	(7,106)	(1,049)	(6,057)
Bonds accretion	1,259	570	–	1,829	1,829	–
Total bonds payable, net	1,105,533	248,064	(36,878)	1,316,719	35,611	1,281,108
Loans payable:						
Series 2006 Note	1,403	–	(1,403)	–	–	–
Series 2008 Note	7,442	–	(2,436)	5,006	2,556	2,450
Series 2009 Note	–	8,000	–	8,000	8,000	–
Series 2009A Note	–	29,615	(29,615)	–	–	–
Series 2009 B Working Capital Notes	–	100,000	–	100,000	100,000	–
Series 2009 A Tax Increment Notes	–	6,031	–	6,031	–	6,031
Total loans payable	8,845	143,646	(33,454)	119,037	110,556	8,481
Other liabilities:						
Accrued compensated absences	60,854	–	(6,529)	54,325	32,595	21,730
Retroactive union arbitration	277,305	–	(45,470)	231,835	–	231,835
Litigation	14,132	6,862	(4,355)	16,639	1,623	15,016
Landfill closure and postclosure costs	39,631	131,318	–	170,949	–	170,949
Post employment benefit	46,629	47,286	–	93,915	–	93,915
Arbitrage	1,728	–	–	1,728	1,728	–
Total other liabilities	440,279	185,466	(56,354)	569,391	35,946	533,445
Total governmental activities	$ 1,554,657	$ 577,176	$ (126,686)	$ 2,005,147	$ 182,113	$ 1,823,034

11. Long-Term Liabilities (continued)

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

Changes in long-term liabilities for business-type and fiduciary activities were as follows for the year ended September 30, 2009 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Business-type activities:						
Workers compensation claims	$ 16,150	$ 5,348	$ (6,003)	$ 15,495	$ 8,238	$ 7,257
Loan payable - US Treasury	-	3,010	-	3,010	-	3,010
Capital Lease - WICO	-	565	(207)	358	170	188
Note payable - WICO	23,557	–	(400)	23,157	436	22,721
Total business-type activities	$ 39,707	$ 8,923	$ (6,610)	$ 42,020	$ 8,844	$ 33,176
Fiduciary activities:						
Note payable:						
Pension trust fund	$ 7,313	$ –	$ –	$ 7,313	$ 7,313	$ –

Debt Margin

Pursuant to 48 U.S.C. Section 1574(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. Such revenue bonds are payable solely from the revenue directly derived from and attributable to such public improvements or undertakings. Pursuant to 48 U.S.C. Section 1574(b)(ii), the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness is in excess of 10% of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. In addition, pursuant to 48 U.S.C. Section 1574(a) (Public Law 94-932), the U.S. Virgin Islands is authorized to cause to be issued bonds or other obligations in anticipation of the matching funds to be received from the federal government pursuant to 26 U.S.C. Section 7652(b)(3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. Section 1574(a). The Legislature of the U.S. Virgin Islands must authorize all bond issuances. PFA is authorized to issue bonds for the purpose of financing any project or for the purpose authorized by the Legislature. Given that PFA's powers to issue bonds are derived from 48 U.S.C. Section 1574(b), the bonds issued by PFA are subject to the limitations of said 48 U.S.C. Section 1574(b).

11. Long-Term Liabilities (continued)

On August 23, 1999, the Legislature amended the V.I. Code to add a Mandatory Balanced Budget Provision. Such provisions, specifically Title 2 of the V.I. Code Section 256, provide that the amount of debt of the Government existing on October 1, 2000 shall be the debt limit of the Government, exclusive of bond principal and interest that may become due. The debt limit specified under Title 2 of the V.I. Code Section 256 does not include bonds authorized by law for which a specific source of revenue is identified and committed to retiring those bonds. As used in Title 2 of the V.I. Code Section 256, the term "debt" means the total accumulated unpaid obligations that are due and payable, including unpaid income tax refunds, amounts owed to vendors, and current year unpaid debt service obligations, if any. As used in the statute, the term "debt" does not include that portion of principal or interest on bonds that is not yet due and payable.

Bonds Payable

Bonds payable outstanding at September 30, 2009 are comprised of the following (thousands):

Bonds Payable	Maturity	Rates (%)	Balance
1998 Series A, C, D, and E Revenue and Refunding Bonds	2025	5.50 - 7.11	$ 395,505
1999 Series A General Obligation Bonds	2010	6.50	600
1999 Series A Revenue Bonds	2020	4.20 - 6.50	93,925
2001 Series A Tobacco Bonds	2031	5.00	18,260
2003 Series A Revenue Bonds	2033	4.00 - 5.25	255,815
2004 Series A Revenue Bonds	2025	4.00 - 5.25	82,310
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2006 Series A Revenue Bonds	2029	3.50 - 5.00	217,495
2009 Series A Revenue Bonds	2038	6.00 - 6.75	250,000
Subtotal			1,321,200
Plus (less):			
Deferred costs on refundings			(15,106)
Bonds premium			15,902
Bonds discount			(7,106)
Bonds accretion			1,829
Total			$ 1,316,719

11. Long-Term Liabilities (continued)

Bonds Payable

On May 1, 1998, PFA issued the revenue and refunding bonds series 1998 A, B, C, D, and E amounting to $541.8 million, secured by general obligation notes issued by the Government. These bonds were issued for the purpose of, among other things, advance refunding of previously issued bonds in order to obtain lower interest rates.

The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993, and Series 1994 Bonds. At September 30, 2009, $138.3 million of the above-mentioned defeased bonds were outstanding.

The proceeds of the Series 1992 Revenue Bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue Bonds. At September 30, 2009, $130.4 million of defeased bonds were outstanding. Assets held by irrevocable trusts for refunding of prior outstanding debt and the corresponding liabilities are not included in the Government's basic financial statements.

The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest due and payable on the Revenue Anticipation Note, issued in February 1998. The remaining balance of the 1998 Series D Bonds amounting to approximately $11.6 million was primarily provided to the Government for additional working capital. The net proceeds of the 1998 Series E Bonds amounting to $104 million were primarily designated to fund the construction of certain capital projects amounting to $94 million. The remaining $10 million was deposited in a debt service reserve account.

The U.S. Department of the Treasury makes certain transfers to the Government of substantially all excise taxes imposed and collected under the Internal Revenue laws of the United States in any fiscal year on certain products produced in the U.S. 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 U.S. Department of the Treasury is an amount no greater than the total amount of local revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term "matching fund revenue" is used to denote these payments. The Government has pledged the matching fund revenue, as described above, to the timely payment of principal and interest on the 1998 Series A, B, C, D, and E Bonds, the 2004 Series A Bonds, and the 2009 Series A Bonds. Thus, amounts to be received by the Government from federal excise taxes, mostly in rum, are deposited directly into trust accounts until the 1998, 2004 and 2009 Bonds are paid in accordance with the Indenture of Trust.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

Estimated prepayments of matching fund revenue are made to the Government prior to the beginning of each fiscal year, subject to adjustment for the amount of local revenue actually collected by the U.S. Department of the Treasury during such year. Prepayments of matching fund revenue are recorded as deferred revenue in the accompanying statement of net assets and the balance sheet of the governmental funds and recognized in the following year when earned. The adjustments for actual collections made to the estimated prepayments are recorded in the year determined.

In November 1999, the U.S. Congress approved an increase in the rate of federal excise taxes on rum transferred to the Government from $10.50 to $13.25 per proof gallon. The increase was retroactive to July 1999. The increase in rate has subsequently been extended five times and in December 2008, Congress again extended the $13.25 per proof gallon rate to December 31, 2010.

On April 13, 1999, the Government issued the General Obligation Bonds Series 1999 A amounting to $9 million to finance certain costs of compliance by the PG with the Year 2000 computer system issues (Y2K). Principal and interest are payable semiannually on January 1 and July 1.

The General Obligation Bonds Series 1999A are secured by the full faith and credit and taxing power of the Government, including a pledge on annual real property tax revenue from its taxation of the Hovensa Oil Refinery (the Refinery), and a contingent pledge of all franchise taxes on foreign sales corporations collected by the Government (Franchise Tax Revenue).

Pursuant to the Hovensa Oil Contract, the Refinery agreed to pay $14 million annually of real property taxes on the Refinery properties. Foreign sales corporations qualified to do business in the Virgin Islands must pay a franchise tax of $1.50 for each thousand dollars of capital stock issued (Franchise Tax).

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

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On September 28, 2006, PFA advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2020 to October 1, 2029 totaling $162.9 million. The proceeds of the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the bonds. Approximately $180 million was deposited with the refunding bond escrow agent to fund the Escrow Fund accounts. At September 30, 2009, $162.9 million of the defeased 1999 Series A Revenue Bonds remain outstanding.

The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the 1999 Series A Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. Gross receipts revenue amounted to $119.6 million for the year ended September 30, 2009.

On November 20, 2001, TSFC issued the 2001 Tobacco Settlement Asset-Backed Series A Bonds amounting to $23.7 million of the aggregate principal. The proceeds were used for the purpose of (i) purchasing all rights, title, and interest in certain litigation awards under the master settlement agreement (MSA) entered into by participating cigarette manufacturers, (ii) issuance of Tobacco Settlement Asset-Backed Bonds to pay the purchase price for the rights, and (iii) to provide funds for hospital and healthcare projects in the U.S. Virgin Islands.

Interest on the 2001 bonds is payable semiannually each May and November 15 for the term bonds amounting to $15.5 million and convertible capital appreciation bonds amounting to $8.2 million, with a nominal value of $6.2 million.

The convertible capital appreciation bonds accrete interest prior to November 15, 2007 and accrue interest subsequent to that date. Interest on the capital appreciation bonds will compound on May 15th and November 15th.

2001 Series A Tobacco Bonds payable at September 30, 2009 amounted to $18.3 million. Under early redemption provisions, any MSA payments exceeding annual debt service requirements of the 2001 Series A Tobacco Bonds must be applied to early redemption of principal. MSA payments and interest earnings on the trust funds during the year ended September 30, 2009, resulted in early redemption of $650 thousand during fiscal year 2009.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On October 1, 2002, PFA issued the Series 2002 Revenue Bonds (Garvee Bonds), the proceeds of which amounted to $20.8 million. The Garvee 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 their maturity on September 1, 2009.

On December 17, 2003, PFA issued the Series 2003A Revenue Bonds, the proceeds of which amounted to approximately $268 million. The bonds were issued to: (i) repay the Government outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund debt service accounts for the bond issuance, and (iv) to pay certain costs of issuing the bonds.

The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the Series 2003A Revenue Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2005. The Series 2003A Revenue Bonds are not subject to optional redemption prior to October 1, 2014.

On December 1, 2004, PFA issued the 2004 Series A Bonds, the proceeds of which amounted to $94 million. 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 2025. 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 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 2004A Bonds are not subject to optional redemption prior to October 1, 2014.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On March 15, 2006, TSFC issued the 2006 Tobacco Settlement Asset-Backed Bonds, Subordinated Series 2006 A, B, C & D Turbo and Capital Appreciation Bonds amounting to $48.1 million, with an issue value of $7.3 million (net of accretion of $40.8 million). The bonds are secured and payable from collections including all Tobacco Settlement Revenues to be received by TSFC, reserves, amounts held in other accounts established by the indenture and TSFC's rights under the purchase agreement. The proceeds have been used for the purpose of (i) financing several capital hospital and health development projects for the benefit of the Virgin Islands and its residents, (ii) pay certain costs of issuance relating to the Series 2006 Bonds, and (iii) fund operating costs.

Interest on the Series 2006 Tobacco Settlement Asset-Backed Bonds is not paid currently, but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006 through the final maturity date of May 15, 2035. Interest yields on the Bonds range from 6.25% to 7.63%. The series are subject to early redemption at accreted value beginning May 15, 2023, provided that the 2001 Tobacco Settlement Asset-Backed Series A Bonds have been paid in full.

On September 28, 2006, PFA issued the 2006 Series Gross Receipts Revenue Bonds ("2006 Series Bonds"), the proceeds of which amounted to $219.5 million. The Government has pledged gross receipts tax revenues for the timely payment of the principal and interest on the 2006 Series Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2007.

The 2006 Series Bonds bear interest at 3.50% to 5.00% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) advance refund a portion of the Series 1999A Revenue Bonds, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund debt service reserve accounts, (v) pay certain costs of issuing the Series 2006 Bonds, and (vi) fund a net payment reserve account for a new swap agreement in connection with the refunding. The 2006 Series Bonds maturing on or before October 1, 2016 are not subject to optional redemption.

The advance refunding of the 2020 through 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.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

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 2020 through 2029 maturities of the 1999 Series A Bonds. Approximately $180 million in funds were deposited into the Escrow Fund accounts. At September 30, 2009, $162.9 million of defeased 1999 Bonds remained outstanding.

On July 9, 2009, PFA issued the 2009 Diageo Matching Fund Bonds ("2009 Series Bonds") amounting to $250 million. The 2006 Series Bonds bear interest at 6.00% to 6.75% and mature from 2013 to 2038. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2009.

The proceeds of the bonds were issued to: (i) provide a grant to Diageo USVI, Inc. ("Diageo USVI") to finance the costs of the acquisition, design, development, construction, and equipping of a rum production and maturation warehouse facility to be located on the island of St. Croix (Diageo Project), (ii) to redeem the Subordinated Revenue Bond Anticipation Notes Series 2009A issued to finance preliminary costs of the Diageo Project, (iii) fund debt service reserve accounts, (iv) pay capitalized interest, and (v) pay certain costs associated with the issuance of the bonds.

The Government has pledged matching funds generated from the sale of Captain Morgan rum products (produced by Diageo USVI) for the timely payment of the principal and interest on the 2006 Series Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1, beginning October 1, 2007. The 2009 Series Bonds maturing on or after October 1, 2020 shall be subject to optional redemption on or after October 1, 2019 at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

11. Long-Term Liabilities (continued)

Debt service requirements at September 30, 2009 were as follows (expressed in thousands):

	Series 1998 A		Series 1998 E		Series 1998 Total		Series 1999 A		Series 1999 A	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2010	$ 13,135	$ 15,480	$ 5,345	$ 6,107	$ 18,480	$ 21,587	$ 600	$ 19	$ 6,230	$ 5,716
2011	13,835	14,779	5,665	5,791	$ 19,500	$ 20,570	–	–	6,580	5,356
2012	14,580	14,032	6,000	5,456	$ 20,580	$ 19,488	–	–	6,950	4,948
2013	15,380	13,231	6,355	5,100	$ 21,735	$ 18,331	–	–	7,395	4,485
2014	16,245	12,369	6,730	4,724	$ 22,975	$ 17,093	–	–	7,865	4,057
2015 – 2019	96,095	46,978	39,665	17,098	$ 135,760	$ 64,076	–	–	47,510	11,324
2020 – 2024	83,375	18,654	36,670	4,366	$ 120,045	$ 23,020	–	–	11,395	567
2025 – 2029	36,430	1,540	–	–	$ 36,430	$ 1,540	–	–	–	–
Total	$ 289,075	$137,063	$ 106,430	$ 48,642	$ 395,505	$ 185,705	$ 600	$ 19	$ 93,925	$ 36,453

	Tobacco Bonds Series 2001 A		Revenue Bonds Series 2003 A		Revenue Bonds Series 2004 A		Revenue Bonds Series 2006		Tobacco Bonds Series A,B,C,D	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2010	$ 1,100	$ 897	$ 3,360	$ 12,746	$ 3,450	$ 4,176	$ 1,530	$ 10,491	$ –	$ –
2011	1,165	847	3,495	12,609	3,625	3,999	1,580	10,429	–	–
2012	1,265	794	3,635	12,448	3,805	3,814	2,705	10,330	–	–
2013	1,335	734	3,815	12,262	3,995	3,619	2,805	10,192	–	–
2014	1,405	669	4,010	12,066	4,195	3,414	2,905	10,049	–	–
2015 – 2019	–	2,998	23,335	56,937	24,405	13,521	16,225	47,913	–	–
2020 – 2024	3,945	2,406	30,115	49,995	31,505	6,228	70,185	39,050	–	–
2025 – 2029	–	2,011	38,520	41,385	7,330	193	97,785	17,204	–	–
2030 – 2034	8,045	804	145,530	21,133	–	–	21,775	463	–	–
2035 – 2039	–	–	–	–	–	–	–	–	48,145	–
Less unamortized discount	–	–	–	–	–	–	–	–	(40,855)	–
Total	$ 18,260	$ 12,160	$ 255,815	$ 231,581	$ 82,310	$ 38,964	$ 217,495	$ 156,121	$ 7,290	$ –

	Revenue Bonds Series 2009 A		Total government activities	
	Principal	Interest	Principal	Interest
Maturity Year:				
2010	$ –	$ 12,156	$ 34,750	$ 67,788
2011	–	16,703	35,945	70,513
2012	–	16,703	38,940	68,525
2013	–	16,703	41,080	66,326
2014	4,040	16,581	47,395	63,929
2015 – 2019	24,590	78,518	271,825	275,287
2020 – 2024	34,370	68,739	301,560	190,005
2025 – 2029	47,870	55,232	227,935	117,565
2030 – 2034	66,825	36,279	242,175	58,679
2035 – 2039	72,305	10,172	120,450	10,172
Less unamortized discount	–	–	(40,855)	–
	$ 250,000	$327,786	$ 1,321,200	$ 988,789

11. Long-Term Liabilities (continued)

Conduit Debt

In November 2002, the PFA and the PG issued private activity bonds, the Refinery Facilities Revenue Bonds (HOVENSA Coker Project), the "Series 2002 Tax-Exempt Bonds", amounting to $63.8 million and $63 million respectively ($126.8 million in total) to finance costs of construction of a coker plant for a refinery on the island of St. Croix. The bonds have an interest rate of 6.50% and are limited obligations of PFA and the PG, payable solely from and are secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA, PG and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. As of September 30, 2009, $126.8 million of the bonds remain outstanding.

In December 2003, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2003 Tax-Exempt Bonds", amounting to $74.2 million, to finance the costs of a Clean Fuels Program for a refinery on the island of St. Croix. The Clean Fuels Program consists of three major projects to comply with regulatory standards for low sulfur gasoline. The Clean Fuels Program is a federally mandated program effective January 2004. The bonds have an interest rate of 6.125% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. As of September 30, 2009, $74.2 million of the bonds remain outstanding.

In April 2004, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2004 Tax-Exempt Bonds", amounting to $50.6 million, to finance construction of a delayed coking unit for a refinery on the island of St. Croix. The bonds have an interest rate of 5.875% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. As of September 30, 2009, $50.6 million of the bonds remain outstanding.

11. Long-Term Liabilities (continued)

Conduit Debt (continued)

In March 2007, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the “Series 2007 Tax-Exempt Bonds”, amounting to $104.1 million, to finance modifications to diesel and gasoline desulfurization units for a refinery on the island of St. Croix. The bonds have an interest rate of 4.70% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government’s basic financial statements. As of September 30, 2009, $104.1 million of the bonds remain outstanding.

Notes Payable

On September 7, 2006, the PFA issued the Subordinate Lien Revenue Notes, Series 2006 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $4 million (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 PG under the same terms, for the purposes of (i) financing the acquisition of fire fighting, fire suppression and fire safety equipment, (ii) training of firefighters, (iii) renovations and repairs to fire stations, and (iv) pay certain costs of issuing the Series 2006 Notes. The PG has pledged gross receipts taxes for the payment of the Series 2006 Notes. The Series 2006 Note was fully paid in fiscal year 2009.

On June 1, 2008, WICO refinanced its outstanding notes payable and obtained an additional $2.3 million in financing for infrastructure improvements. The consolidated notes amounted to $23.6 million, to be repaid in 120 consecutive monthly installments of $154,953 at a fixed interest rate of 6.2%, plus a final payment of the balance of principal, plus any unpaid interest, in 2018. The notes may be prepaid, in whole, or in part, at any time without penalty.

WICO has pledged all leases and revenues to secure the notes, and may not declare dividends, or issue additional equity interests without lender approval.

As of September 30, 2009, WICO was not in compliance with note covenants requiring 1) minimum operating revenue thresholds and 2) the maintenance of a restricted debt service reserve account equal to debt service requirements for the following year. In May 2010, WICO obtained a waiver from the lender for its failure to comply with these covenants.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

Debt service requirements for the WICO loan at September 30, 2009 were as follows (expressed in thousands):

Year:	Principal
2010	$ 436
2011	464
2012	493
2013	525
2014	558
2015 - 2019	20,681
Total	$ 23,157

On August 12, 2008, PFA issued the Subordinate Lien Revenue Notes, Series 2008 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $7.65 million (the "Series 2008 Notes"). The Series 2008 Notes accrue interest monthly at a rate of 4.75% for 36 months. The proceeds of the Series 2008 Notes were loaned to the PG 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 2008 Notes. The PG has pledged gross receipts taxes for the payment of the Series 2008 Notes.

Debt service requirements for the Series 2008 Notes at September 30, 2009 were as follows (expressed in thousands):

Year	Principal	Interest
2010	$ 2,556	$ 185
2011	2,450	59
Total	$ 5,006	$ 244

On February 12, 2009, PFA issued the Subordinate Lien Revenue Bond Anticipation Notes ("Series 2009 Notes"), in the amount of $8 million. The Series 2009 Notes accrue interest at a rate of 4.75% and were due on February 1, 2010.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

The proceeds of the Series 2009 Notes were loaned to the PG under the same terms, for the purpose of: (i) financing the purchase and installation of emergency communication equipment for the Virgin Islands Police Department and (ii) paying certain costs of issuing the Series 2009 Notes.

Debt service requirements for the Series 2009 Notes at September 30, 2009 were as follows (expressed in thousands):

Year	Principal	Interest
2010	$ 8,000	$ 334
Total	$ 8,000	$ 334

On June 29, 2009, PFA entered into a Subordinated Revenue Bond Anticipation Note Purchase Agreement with J. P. Morgan Securities, Inc. to purchase $29.6 million in Subordinated Revenue Bond Anticipation Notes (the "Series 2009A Notes"). The purpose of the Series 2009A Notes is to provide a grant to a private company to finance the start-up costs associated with the construction of a state-of-the-art rum distillery and storage facility on the island of St. Croix. The Series 2009A Notes have a term of five and one-half months, maturing on December 15, 2009, with interest rates of 1.3075% from June 29, 2009 to July 28, 2009, and interest based on the 1-Month LIBOR rate plus 200 basis points thereafter. The Series 2009A Notes were paid on July 9, 2009, with the issuance of the 2009 Series A Bonds.

In August 2009, the current unemployment insurance taxes and reserve balances of the Unemployment Trust Fund (UTF) held by the U.S. Treasury became inadequate to cover territory expenditures for unemployment compensation (UC) benefits. UC benefits are an entitlement program and the PG is legally liable to pay benefits even if the UTF becomes insolvent. As of September 30, 2009, the PG had borrowed $3 million from the U.S. Treasury Federal Unemployment Account (FUA) to meet U.C. obligations. The American Recovery and Reinvestment Act of 2009 (P.L. 111-5 Section 2004) temporarily waives interest payments and the accrual of interest on FUA loans.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

On September 18, 2009, PFA issued the Subordinated Lien Revenue Bond Anticipation Notes (Series 2009B Notes) in two series: the Series 2009 B-1 Notes in the aggregate amount of $150 million with the agent lender First Bank of Puerto Rico and the Series B-2 Notes in the aggregate amount of $100 million with the agent lender Banco Popular de Puerto Rico. Both Series B-1 and B-2 accrue interest at a rate of 400 points above the 90-day LIBOR rate, not to exceed a maximum rate of 5.50%. Interest payments are due the first business day of the month, effective October 1, 2009. The purpose of the Notes is to provide working capital to the PG for operating expenses and to pay the costs of the issuances. The Series 2009B Notes are general obligations of the PG. The PG has also pledged a security interest in gross receipts tax collections. The Series 2009B Notes have a stated maturity date of October 1, 2012, and were defeased on July 8, 2010 with the issuance of the Series 2010A and Series 2010B Revenue and Refunding Bonds issue by the PFA. As of September 30, 2009, the PG had drawn $60 million under the Series 2009 B-1 Notes, and $40 million under the Series 2009 B-2 Notes.

Debt service requirements for the Series 2009B Notes at September 30, 2009 were as follows (expressed in thousands):

Year	Principal
2010	$ 100,000

On September 25, 2009, PFA entered into the Tax Increment Revenue Bond Anticipation Note Purchase Agreement (the "Agreement") with a local bank. Under the terms of the Agreement, the bank will purchase up to $15.7 million in federally taxable Bond Anticipation Notes (the "Series 2009A Notes"). The purpose of the Series 2009A Notes is to provide a loan to the PG (the "Series 2009A Tax Increment Revenue Loan Note") to finance the developmental costs of a shopping complex on the island of St. Croix. The Series 2009A Notes have a term of three years, maturing on October 1, 2012, with interest of 300 points above the J.P. Morgan Chase Prime Rate or 6.25%, whichever is higher. On October 1, 2012, the Series 2009A Notes will convert to a term loan with payments in eleven quarterly payments, based on a twenty-five (25) year amortization schedule, with a final payment on October 1, 2015. Under the terms of the Agreement, PFA may issue Tax Increment Revenue Bonds to defease the debt prior to that date. As of September 30, 2009, PFA had sold $6.03 million in Series 2009A Notes.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

The proceeds were used to: (i) fund a capitalized interest account and (ii) fund the first phase of the development of the shopping center complex. The debt is a special limited obligation of the PG, secured by Tax Incremental Financing ("TIF") revenues. TIF revenues consist of 100% of the incremental property taxes and 90% of the incremental gross receipts taxes, derived from the development project.

Debt service requirements for the Series 2009A Notes at September 30, 2009 were as follows (expressed in thousands):

Year		Principal
2010		$ 86
2011		109
2012		5,836
	Total	$ 6,031

11. Long-Term Liabilities (continued)

Fiduciary Funds – Notes Payable

On October 2, 2006, the pension trust fund entered into a loan agreement with Banco Popular de Puerto Rico to provide working capital and to pay issuance and closing costs associated with the agreement. The pension trust fund obtained a revolving line-of-credit with a maximum principal amount of $25 million, which accrues interest at a fixed interest rate of 6.25% calculated on a 360-day basis and is due and payable quarterly, commencing on the first day of the fourth calendar month following the closing of the loan. At any time that an event of default occurs, the loan will bear interest at a rate equal to 3% above a variable interest rate based on the bank's transfer rate. The bank retains a certificate of deposit in the amount of $20 million as security on the note payable. As of September 30, 2009, the outstanding balance under the line-of-credit agreement was $7.3 million.

Capital Lease Payable

During the fiscal year ended September 30, 2009, WICO entered into a capital lease amounting to $564 thousand for the purchase of security equipment. Future minimum payments under the lease agreement were as follows (expressed in thousands):

Year	Principal	Interest
2010	$ 170	$ 37
2011	187	19
Total	$ 357	$ 56

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable

Bonds payable of discretely presented component units are those liabilities that are paid out of resources pledged by such entities. Bonds payable, outstanding at September 30, 2009, are as follows (expressed in thousands):

Bonds Payable	Maturity	Interest Rates (%)	Balance
University of the Virgin Islands:			
General obligation bonds of 2004	2035	2.02 – 5.38	$ 20,435
General obligation bonds of 1999	2029	4.75 – 5.95	21,460
Virgin Islands Water and Power Authority (Electric System)			
Revenue bonds of 2007	2031	5.0	57,585
Revenue bonds of 2003	2023	4.00 – 5.00	64,495
Revenue bonds of 1998	2021	4.25 – 5.30	68,190
Virgin Islands Water and Power Authority (Water System)			
Revenue bonds of 1998	2017	4.90 – 5.50	26,965
Virgin Islands Port Authority			
Series A Revenue bonds of 2003	2023	5.00 – 5.25	18,005
Series B Revenue bonds of 2003	2015	3.73 – 5.43	9,375
Series C Revenue bonds of 2003	2023	4.40	9,115
Virgin Islands Housing Finance Authority:			
Revenue bonds of 1995	2025	5.50 – 6.50	1,215
Revenue bonds of 1998	2028	4.10 – 5.25	1,815
Subtotal			298,655
Plus unamortized premium			4,325
Less unamortized discount			(656)
Less deferred costs on debt refunding and reacquisition			(1,992)
Bonds payable, net			300,332
Less amount due within one year			(12,633)
Bonds payable, due in more than one year			$ 287,699

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Following is a schedule of changes in bonds payable, loans payable and other long-term liabilities for discretely presented component units for fiscal year ended September 30, 2009 (expressed in thousands):

	Beginning Balance *(as restated)*	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable:						
University of the Virgin Islands	$ 42,052	$ –	$ (638)	$ 41,414	$ 690	$ 40,724
Virgin Islands Water and Power Authority:						
Electric System	200,238	–	(6,933)	193,305	7,625	185,680
Water System	27,945	–	(2,001)	25,944	2,420	23,524
Virgin Islands Port Authority	38,417	–	(1,778)	36,639	1,848	34,791
Virgin Islands Housing Finance Authority	3,990	–	(960)	3,030	50	2,980
Total bonds payable, net	312,642	–	(12,310)	300,332	12,633	287,699
Loans payable:						
Virgin Islands Economic Development Authority	1,983	1,228	–	3,211	749	2,462
Virgin Islands Water and Power Authority:						
Electric System	21,000	48,000	(2,249)	66,751	9,400	57,351
Virgin Islands Port Authority	1,482	2,443	(2,451)	1,474	1,474	–
Virgin Islands Housing Finance Authority	659	1,715	(276)	2,098	282	1,816
University of the Virgin Islands	1,947	–	(104)	1,843	110	1,733
Total loans payable	27,071	53,386	(5,080)	75,377	12,015	63,362
Other long-term liabilities:						
University of the Virgin Islands	75	15	–	90	–	90
Virgin Islands Housing Authority	10,594	155	(137)	10,612	463	10,149
Virgin Islands Economic Development Authority	10,555	630	–	11,185	–	11,185
Virgin Islands Water and Power Authority:						
Electric System	5,398	5,517	–	10,915	–	10,915
Water System	1,266	1,294	–	2,560	–	2,560
Juan F. Luis Hospital	655	–	(178)	477	–	477
Roy L. Schneider Hospital	568	–	(216)	352	352	–
Waste Management Authority	2,399	326	–	2,725	175	2,550
Virgin Islands Housing Finance Authority	22,892	428	(5,753)	17,567	–	17,567
Total other long-term liabilities	$ 54,402	$ 8,365	$ (6,284)	$ 56,483	$ 990	$ 55,493

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

On December 1, 1999, the University issued the 1999 Series A Bonds. The University issued these bonds to finance a portion of the construction, furnishing, and equipping of various facilities of the University, to refund the 1994 Series A bonds issued by the University, to fund a debt service reserve fund for the 1999 Series A Bonds, and to pay certain costs issued under and secured by an indenture of trust dated. The 1999 Series A Bonds maturing on or after December 1, 2010 are subject to redemption prior to maturity at the option of the University, as a whole or in part of any date, on and after December 1, 2009, at redemption prices ranging between 100% and 102% of their principal amount plus accrued interest to the date fixed for redemption. As of September 30, 2005, the 1994 Series A Bonds were retired.

In fiscal year 2004, the University of the Virgin Islands General Obligation Improvement Bonds, 2004 Series A (the 2004 Series A Bonds) were issued in the amount of $21.2 million under and secured by the Indenture of Trust dated as of December 1, 1999 and a First Supplemental Indenture of Trust dated as of June 1, 2004, between the University and the trustees. The Bonds were used to finance the costs of construction, furnishings, and equipping of various facilities of the University, to fund the debt service reserve fund and to pay the cost of issuance.

In June 2007, the Electric System of WAPA issued the $57.6 million 2007A Electric System Subordinated Revenue Bonds, to pay certain costs of issuance of the bonds, to finance the costs of certain capital improvements, refinance capital improvements funded through draws on a Line of Credit and reinstall a $10 million Line of Credit.

In June 2003, the Electric System issued the Electric System Revenue Bonds, Series 2003, amounting to $69.9 million. The proceeds from the bonds were used to finance capital improvements, repay $18 million of then outstanding lines-of-credit, cover underwriters' costs, and establish a debt service fund.

In June 1998, the Electric System of WAPA issued $110.9 million of 1998 Series A Electric System Revenue and Refunding Bonds. The proceeds from the bonds, and approximately $14 million in funds from the existing debt service and debt service funds, were used to repay outstanding line-of-credit balances, to provide for approximately $30 million in funds for the construction of certain capital projects, and to pay underwriters discount and issuance costs of approximately $1.7 million. The remaining proceeds were used to purchase direct obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining $69 million principal amount of the 1991 Series A Electric System Revenue Bonds.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Under the terms of the Bond Resolution relating to the Electric System Revenue and Refunding Bonds, payment of the principal and interest is secured by an irrevocable lien on the Electric System's net revenue, (exclusive of any funds that may be established pursuant to the Bond Resolution for certain specified purposes), including the investments and income, if any, thereof.

Under the General Resolution, the Authority is required to maintain a Debt Service coverage ratio at least equal to 1.25 times the principal of and interest on all Outstanding Senior Bonds for the current and each future fiscal year (the Senior Coverage). Under the Electric System Subordinated Revenue Bond Resolution, adopted by the Authority on May 17, 2007, as amended and supplemented (the Subordinated Bond Resolution), the Authority must satisfy the Debt Service coverage ratio of the General Resolution for the Senior Bonds, must maintain a Subordinated Debt Service coverage ratio at least equal to 1.15 times the principal of and interest on all Outstanding Bonds (the Senior and Subordinate Coverage) and all Outstanding Subordinated Bonds for the current and each future fiscal year, and must maintain at least 1.0 times the Maximum Aggregate Debt Service for each such fiscal year (total debt coverage).

The Electric System's net electric revenue for the fiscal year ended June 30, 2009 yielded the following coverage ratios: Senior Coverage, 172%; Senior and Subordinate Coverage, 143%; Total Debt Coverage, 104%.

The Series 2003 Bonds maturing on or after July 1, 2023 are subject to redemption prior to their stated maturity date, at the option of the Electric System, on or after July 1, 2013, as a whole or in part at any time, at a redemption price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption.

The Electric System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the Electric System was damaged, destroyed, taken, or condemned, or (ii) any for-profit nongovernmental investor shall acquire an ownership interest in some or all of the assets of the Electric System.

In December 1998, the Water System of WAPA issued the 1998 Water System Revenue and Refunding Bonds amounting to $44.1 million. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States Government, which were placed in an irrevocable trust

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds. At June 30, 2009, $27 million of the original principal amount of the defeased 1992 Series B Bonds remained outstanding.

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

The Bond Resolution contains certain restrictions and commitments, including the Water System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net water revenue, as defined, that will be at least 125% of aggregate annual principal and interest payments. The Water System's net water revenue for the fiscal year ended June 30, 2009 was 18% of the aggregate debt service as defined in the Bond Resolution.

The 1998 Series Bonds maturing on or after July 1, 2010 are subject to redemption prior to their stated maturity date, at the option of the Water System, as a whole or in part at any time, at a redemption price of 101% through June 30, 2010 and 100% thereafter. The Water System Revenue Bonds are subject to mandatory redemption if (i) any significant part of the water system shall be damaged, destroyed, taken, or condemned or (ii) any for-profit non-governmental investor shall acquire an ownership interest in some or all assets of the Water System.

On January 16, 2003, VIPA issued the Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable) with principal amounts of approximately $18 million and $17.4 million, respectively. VIPA is using the proceeds of the bonds to finance the dredging, rehabilitation, and construction of berthing piers for cruise and seagoing vessels at Crown Bay in St. Thomas, and the construction of a mixed used commercial facility.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

On October 20, 2003, VIPA issued the Marine Revenue Bonds Series 2003C (non-AMT), with an authorized principal amount not to exceed approximately $10.8 million. VIPA used the proceeds of the bonds to finance the completion of several projects of rehabilitation and construction of berthing piers and dredging for cruise and seagoing vessels at Crown Bay on the island of St. Thomas, and the construction at Red Hook, Enighed Pond, Gallows Bay Dock, and dredging of the Charlotte Amalie Harbor.

The bonds' indentures contain certain account restrictions and funding covenants to cover interest, debt service, maintenance, and other costs as specified in the corresponding bond indentures.

The bonds' indentures also specify certain debt service coverage requirements determined from net available revenue (as defined) of the Authority's Marine Division. The provisions of each of the bonds' indentures require that rates and fees charged for the use of each facility should be sufficient to generate enough revenue to pay all operation and maintenance expenses, exclusive of depreciation and certain noncash charges, of the respective facilities, plus: (i) at least 125% of the principal and interest and redemption account sinking fund deposit requirement of each of the bonds becoming due during such year; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the capital improvements appropriations for such period.

VIPA did not comply with the requirement to issue the audited financial statements within 150 days after year-end. However, as per the Authority's bond indenture, this noncompliance event does not constitute an event of default until the Trustee sends a notification of failure and such failure continues for 90 days. As of December 14, 2009, the Authority has not received a notification of failure from the Trustee.

VIHFA issued the 1995 A Revenue Bonds in the amount of $6.2 million, and the 1998 A Revenue Bonds, in the amount of $3 million, for the purpose of building single-family housing. The indenture agreements for the bonds require the VIHFA to deposit with the trustee the full amount of the bond proceeds, to purchase Government National Mortgage Association (GNMA) certificates. The servicer is obligated to pay the principal and interest due on the GNMA certificates to the trustee in an amount equal to the scheduled principal and interest payments of the underlying mortgages. All mortgage loans issued by the VIHFA must be originated by the participants and secured by a first priority mortgage lien on the applicable single-family residences.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Fixed maturities required to pay principal and interest on discretely presented component units' bonds payable with fixed maturities at September 30, 2009 are as follows (expressed in thousands):

Year	Principal	Interest	Total
2010	$ 12,633	$ 15,081	$ 27,714
2011	13,224	14,398	27,622
2012	13,911	13,708	27,619
2013	14,629	12,996	27,625
2014	12,343	12,268	24,611
2015 – 2019	69,477	50,950	120,427
2020 – 2024	64,318	33,150	97,468
2025 – 2029	58,765	19,168	77,933
2030 – 2034	39,355	4,509	43,864
Total	298,655	$ 176,228	$ 474,883
Plus unamortized premium	4,325		
Less unamortized discount	(656)		
Less deferred costs on debt refunding and reacquisition	(1,992)		
Bonds payable, net	$ 300,332		

12. General Tax Revenue

For the year ended September 30, 2009, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 327,912	$ –	$ –	$ –	$ 327,912
Real property taxes	8,005	–	–	17,448	25,453
Gross receipts taxes	–	119,916	4,177	250	124,343
Other taxes	64,389	47,572	–	4,856	116,817
Tax revenue	$ 400,306	$ 167,488	$ 4,177	$ 22,554	594,525
Tax revenue not recognized on the modified accrual basis					12,286
Total tax revenue - government-wide					$ 582,239

13. Commitments and Contingencies

Primary Government

The current labor relations environment of the Government is defined by 13 distinct labor organizations subject to approximately 26 collective bargaining agreements. Fourteen bargaining units are without collective bargaining agreements. As specific disciplines are not grouped under a single pay plan, it is common to have clerical and nonprofessional workers in different departments throughout the Government, represented by different unions. Of the approximately 9,600 government workers, including employees of the executive branch of the Government, approximately 7,200 belong to unions. The present collective bargaining statute requires binding arbitration for certain classified employees in the event of an impasse during salary negotiations between the Government and any union. Under this process, each side chooses an arbitrator and a third impartial arbitrator is selected by the chosen arbitrators. The arbitration panel investigates and reviews the issues in dispute and renders a final and binding decision. For other classified employees, the Government must decide to go to impasse or to enjoin any strike.

As of September 30, 2009, the Government has contractual liabilities for retroactive union arbitration salary increases estimated at $231.8 million accruing from fiscal years 1993 through 2009, as established by the Virgin Islands Retroactive Wage Commission.

13. Commitments and Contingencies

Primary Government

Under Title 24, Section 374(h) of the Virgin Islands Code, the PG may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature. The Legislature subsequently appropriated $45 million for an initial payment of $36.5 million of retroactive wages, and related payroll costs of $8.5 million, which was paid on October 14, 2010. Until additional appropriations are made by the Legislature, the retroactive salary liability is recorded as a non-current liability in the governmental activities column in the government-wide statement of net assets (deficit).

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Loans received are described in Note 10. Monetary and nonmonetary federal financial assistance amounted to approximately $206.0 million and $33.9 million, respectively, for the year ended September 30, 2009.

Receipt of grants is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for eligible purposes. Substantially all grants are subject to audit under OMB Circular A-133. Disallowances as a result of these audits may become liabilities of the Government.

In February 2008, the federal government passed an Economic Stimulus Act providing taxpayer rebates ranging from $300 to $1,200 depending on taxpayer income and filing status. Under Section 101(c) of the Act, United States possessions with mirror code tax systems (Guam, U.S. Virgin Islands and the Commonwealth of the Northern Mariana Islands) were entitled to receive a loss reimbursement from the federal government for the economic hardship of providing rebates to taxpayers, and to ensure timely payment of the rebates. On April 28, 2008, the PG received a loss reimbursement amounting to $41.5 million. As of September 30, 2009, the PG had expended $32 million of the loss reimbursement.

In February 2009, the federal government passed the American Recovery and Reinvestment Act (“ARRA”) to create jobs and stimulate the economy. Under Title I, Section 1001(b) of ARRA, eligible working taxpayers receive a Making Work Pay refundable tax credit of $400 to $800, depending on the taxpayer’s income and filing status for years 2009 and 2010. ARRA provides for mirror code tax system possessions (Guam, U.S. Virgin Islands and the Commonwealth of the Northern Mariana Islands) to receive quarterly loss reimbursements for the economic hardship of this tax provision. During 2009, the PG received $23.4 million in loss reimbursements.

13. Commitments and Contingencies (continued)

Primary Government (continued)

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

On September 23, 2002, the Government entered into a three-year compliance agreement with the U.S. Department of Education requiring that the Government develop integrated and systemic solutions to problems in managing its federally funded education programs. The compliance agreement focuses on the areas of program design and evaluation, financial management, human capital, and property management and procurement. The compliance agreement expired on September 23, 2005. The Government had not fully complied with all terms and conditions of the compliance agreement. The U.S. Department of Education subsequently implemented a special condition for the Government to designate a third-party fiduciary to administer U.S. Department of Education grants. On August 22, 2006, the PG entered into a contract with a third-party fiduciary to administer U.S. Department of Education grants, effective October 1, 2006. The terms and conditions of the original compliance agreement have been extended until the Government is in full compliance with the agreement.

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government in excess of $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to $250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately $16.7 million for awarded and anticipated unfavorable judgments as of September 30, 2009. Management believes that any liability in excess of amounts recorded will not have a material effect on the basic financial statements.

13. Commitments and Contingencies (continued)

Primary Government (continued)

Changes in the reported provision for legal claims since October 1, 2008, resulted from the following activity (expressed in thousands):

	Beginning Balance at October 1, 2008	Claims and Changes in Estimates	Claim Payments	Ending Balance at September 30, 2009
Provision for legal claims	$ 14,132	$ 6,862	$ (4,355)	$ 16,639

The breakdown of the provision for legal claims at September 30, 2009 is as follows (expressed in thousands):

Governmental activities	
Current portion of provision for legal claims	$ 1,623
Long-term portion of provision for legal claims	15,016
	$ 16,639

As of September 2002, the Government was a defendant in a lawsuit regarding the assessment of property taxes. Under the lawsuit, taxpayers asserted that properties should be assessed at actual value in accordance with the Organic Act of 1933. The U.S. District Court agreed with the plaintiffs and, in May 2003, imposed an injunction on the collection of real property taxes at values higher than the 1998 assessed value.

The Government complied with the Court order to develop a plan to implement the new valuation method. In February 2007, the 2005 property tax assessments, based on 1998 assessment levels, were issued. In August 2008, the 2006 property tax assessments, based at actual value in accordance with the Organic Act of 1933, were issued. In September 2008, the 2006 property tax bills were rescinded by court order. In May 2009, the Government received court approval to reissue the 2006 property tax assessments; however, that approval was rescinded in June 2009. The Government subsequently issued the 2006 and 2007 property tax assessments, based on 1998 assessment levels, in April 2010 and February 2011, respectively.

13. Commitments and Contingencies (continued)

Primary Government (continued)

Federal laws and regulations, including the Clean Air Act, 42 U.S.C. § 7401 *et seq*. ("CAA"), and regulations promulgated thereunder, including the federal standards set forth in 40 C.F.R. Part 62, Subpart GGG ("Federal Plan"), and the National Emission Standards for Hazardous Air Pollutants for Municipal Landfill Maximum Achievable Control Technology, set forth in 40 C.F.R. Part 63, Subpart AAAA ("Landfill MACT"), and the Solid Waste Disposal Act, 42 U.S.C. § 6901 *et seq*. ("RCRA"), and regulations promulgated thereunder, including federal municipal solid waste landfill operating, closure, and post-closure criteria set forth in 40 C.F.R. Part 258, and three EPA administrative orders issued pursuant to RCRA § 7003(a), 42 U.S.C. § 6973(a), and Territorial laws and regulations, including V.I. Code Title 19, Chapter 56 (Solid and Hazardous Waste Management), Title 12, Chapter 9 (Air Pollution Control), and Title 12, Chapter 21 (Virgin Islands Coastal Zone Management), and regulations promulgated thereunder, require the Government to construct and operate certain environmental control systems and otherwise comply with certain requirements during operation of each of its landfill sites, properly close the site (including placement of a final landfill cover) when the landfill (or portion thereof) stops accepting waste, and perform certain post-closure maintenance and monitoring functions at the site for 30 years following closure. Compliance costs during the operational phase will be paid prior to closure. Although closure and post-closure costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $170.9 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2009, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care as of September 30, 2009.

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

Landfill	Estimated used capacity	Estimated closure date
Bovoni	63%	2020
Angilla	100%	Closed
Susannaberg	100%	Closed

13. Commitments and Contingencies (continued)

Primary Government (continued)

Actual cost to perform closure and post-closure may be higher due to inflation, changes in technology, or changes in regulations. The Government is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The Government began making annual contributions to a trust in fiscal year 2007 to finance closure and post-closure costs. The Government expects that future inflation costs will be paid from interest earnings on these annual contributions and other financing measures. However, if interest earnings and financing measures should be inadequate, or additional post-closure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users.

Since 1985, the Government has been subject to a consent decree issued by the Virgin Islands District Court, governing the operation of its wastewater treatment plants. The consent decree was amended in 1996 and further modified with the 2002 Stipulation to the Amended Consent Decree (the Stipulation) to establish deadlines for the construction of new secondary treatment facilities, including the replacement of the existing St. Croix and Airport Lagoon (Charlotte Amalie) wastewater treatment plants. The Stipulation requires that the new St. Croix wastewater treatment plants be completed by the end of 2006 and the new Charlotte Amalie wastewater treatment plants be completed by the end of 2007. However, the plants were completed by the end of 2007 and 2008, respectively. The cost of both facilities is estimated at approximately $50 million. The Stipulation also establishes certain interim deadlines and performance standards that must be met by the Government pending completion of the new facilities. In addition, the Stipulation establishes specified penalties for violation of any of the deadlines or performance standards set forth therein. As of the date of the basic financial statements, the Government is current on all of its outstanding obligations pursuant to the stipulation. In January 2004, the Government's Legislature authorized the creation of the Virgin Islands Waste Management Authority (WMA) for the purpose of meeting environmental requirements of waste treatment in the U.S. Virgin Islands. On December 2004, the PFA issued revenue bonds amounting to $94 million for the purpose of constructing and rehabilitating wastewater treatment plants noted above.

13. Commitments and Contingencies (continued)

Primary Government (continued)

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System permit for its St. Croix distillery operations provided that the Government make certain funding available to (i) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge, (ii) identify practicable, available, reliable, and cost-effective potential mitigation measures, and (iii) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the V.I. Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate. Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to $6 million in the aggregate, commencing on October 13, 2003. In June 2004, the Government entered into a three year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA.

As of September 2004, the PG became a defendant in a lawsuit regarding the assessment of franchise taxes. Under the lawsuit, taxpayers asserted that franchise taxes should be assessed in accordance with Title 13 Virgin Islands Code Section 531(a). The plaintiff taxpayers interpret the definition of "capital stocks used in conducting business in the Virgin Islands" in the V.I. Code as tax collected only on the par value of the stock, while the PG's position is that the amount allocated should be over the par value and additional paid-in capital upon a subsequent reorganization. The PG also imposed a six-year statute of limitations on tax refund claims against the Government. Management believes that the ultimate liability of this case would not have a material adverse impact on the PG's overall financial position as reported in the government-wide financial statements.

Workers' Compensation Liability

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

13. Commitments and Contingencies (continued)

Workers' Compensation Liability (continued)

Changes in the claims liability amount in fiscal year 2009, as recorded in the Government Insurance Fund was as follows (expressed in thousands):

	2009	2008
Claims payable - October 1	**$ 16,150**	$ –
Incurred claims and changes in estimates	**5,348**	24,091
Payments for claims and adjustments expenses	**(6,003)**	(7,941)
Claims payable - September 30	**$ 15,495**	$ 16,150

The Government continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Component Units

In September 1989, WAPA electric facilities were damaged by Hurricane Hugo. WAPA reconstructed the facilities with proceeds from insurance and FEMA. Subsequent to the receipt of funds, FEMA de-obligated approximately $7.9 million in questioned costs. Approximately $2.6 million of these questioned costs related to an oil spill that was subsequently settled with FEMA. During 1998, WAPA submitted a second appeal for $4.4 million of the remaining questioned costs, and agreed to refund approximately $900 thousand of questioned costs to FEMA. During 1999, FEMA denied the second appeal and formally closed the disaster claim. WAPA has recorded a liability for $5.0 million related to the questioned costs. FEMA has not made a formal request for repayment of the funds.

In September 2005, WAPA electric facilities sustained damages amounting to $1.3 million due to Tropical Storm Jeanne. WAPA reported $438 thousand as a FEMA claim receivable as of June 30, 2009.

13. Commitments and Contingencies (continued)

Component Units (continued)

In October 2008, the Virgin Islands were impacted by Hurricane Omar. The majority of the damage was inflicted to the Electric Distribution System on the island of St. Croix with minimal damage on St. Thomas, St. John, and Water Island. The authority has expended about $3 million for storm cleanup and system restoration as of June 2009. The territory was declared a federal disaster after the hurricane and is eligible for reimbursement of 75% or 80% of what was expended according to the category of the damage. The Authority has recorded a receivable from FEMA through the Office of Management and Budget – Public Assistance (OMB-PA) amounting to approximately $2.3 million.

Several former employees have individually filed suits against the VIHA for wrongful discharge over the period 1997 through 2006. None of the cases are resolved and it is not possible to predict the eventual outcome, nor estimate the amount or range of potential loss in the event of an unfavorable outcome.

A subcontractor has sued the VIHA for nonpayment for work done in 2000. It is not possible to predict the eventual outcome nor estimate the amount or range of potential loss in the event of an unfavorable outcome.

In 2002, the Federal Aviation Administration (FAA) conducted an on-site wildlife evaluation of the St. Croix landfill, which is located next to the St. Croix airport. The FAA determined that the landfill posed an environmental and navigational threat to the airport due to flocks of birds that reside in the landfill area. The FAA may require VIPA to repay $9.3 million in federal grants and has refused further discretionary grants for the airport until VIPA shows progress toward closing the landfill. The landfill is under the jurisdiction of the PG. The PG has negotiated a remediation plan with FAA to close the landfill by December 2009. FAA accepted the plan, if such measures are implemented.

In connection with the purchase of lands adjacent to the airport, VIPA was awarded federal financial assistance in 2002 amounting to $8 million under a Real Property Acquisition Relocation Assistance Program. VIPA is in noncompliance with certain federal requirements of the assistance program. Noncompliance with requirements of federal financial assistance programs may result in a refund of the funds granted. VIPA management believes that noncompliance instances should not materially affect VIPA's financial position.

13. Commitments and Contingencies (continued)

Component Units (continued)

WAPA, VIPA, and other discretely presented component units are presently a defendant or codefendant in various lawsuits. The financial managers of the component units have advised the PG that any adverse outcome involving a material claim is expected to be substantially covered by insurance. Government property is exempt from lien, levy, or sale as a result of any judgment under the Virgin Islands Code.

14. Retirement Systems

Plan Description

GERS is the administrator of a cost-sharing, multiple-employer, defined-benefit pension plan established as of October 1, 1959 by the Government to provide retirement, death, and disability benefits to its employees. The following description of the plan is provided for general information purposes only. Refer to the actual text of the retirement law in the V.I. Code, Title 3, Chapter 27 for more complete information. Regular employees are eligible for a full-service retirement annuity when they have completed 30 years of credited service or have attained the age of 60 with at least 10 years of credited service. Members who are considered "safety employees," as defined in the V.I. Code, are eligible for full retirement benefits when they have earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and upon the completion of 6 years of credited service as a member of the Legislature.

Funding Policy

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation is determined by averaging the three highest years of salary the member earned within the last 10 years of service. The maximum annual salary that can be used in this computation is $65,000, except for senators and judges, whose annual salary is used. The board of trustees of GERS may set cost-of-living increases for annuitants and pensioners and determine when the annuity should be paid on the basis of the most recent actuarial valuation and the Consumer Price Index.

14. Retirement Systems (continued)

Funding Policy (continued)

GERS is a blended component unit included in the financial reporting entity and is presented as a pension trust fund of the PG. GERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Employees' Retirement System of the Government of the Virgin Islands, 3438 Kronprindsens Gade, Veterans Drive, St. Thomas, Virgin Islands 00802.

Contributions to GERS are made by the Government and the members. Government and members contributions are not actuarially determined but are set by statute. The Government and members' contributions together with the income of GERS should be sufficient to provide an adequate actuarially determined reserve for the benefits prescribed by the VI Code.

The contributions required to fund GERS on an "actuarial reserve basis" are calculated periodically by the GERS actuarial consultant. The actuarial valuation as of September 30, 2006, indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the pension trust fund on an actuarial basis, as required by law.

The Government's required contribution for the year ended September 30, 2009 was 17.5% of the member's annual salary. Since April 1, 1991, required member contributions are 8% of annual salary for regular employees, 9% for senators, 11% for judges, and 10% for Act 5226 eligible employees. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective November 2, 2005, legislation was passed that provided for annual interest on refunded contributions to be determined by the board of trustees of not less than 2% nor more than 4% annually. The Government's contractually required contributions, actual contributions made, and percentage contributed to the plan for the years ended September 30, 2009, 2008, and 2007 were as follows (expressed in thousands):

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2007	$ 60,778	$ 60,778	100%
2008	$ 75,871	$ 75,871	100%
2009	$ 80,177	$ 80,177	100%

14. Retirement Systems (continued)

Funding Policy (continued)

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

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

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary four percent higher during the three years used to compute the employee's average compensation figure, plus a sum of $5,000. Based on this calculation, the amount due to GERS was $26.9 million as of September 30, 2009, of which $26.8 million had been remitted to GERS.

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

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. As of September 30, 2009, 246 faculty members and other employees were TIAA-CREF participants. The number of active participants from the University participating in GERS as of September 30, 2009 was 261. Total contributions made by the University to TIAA-CREF and GERS participant accounts amounted to $2.2 million and $1.8 million, respectively.

14. Retirement Systems (continued)

Postemployment Benefits

In addition to the pension benefits described in note 13, the Government provides other postemployment benefits (OPEB) of healthcare, prescription, dental and life insurance coverage. These benefits are provided in accordance with Title 3, Chapter 25, Subchapter VIII of the VI Code as part of a cost-sharing, multiple employer defined benefit OPEB plan, in which all component units of the PG participate and contribute. All employees who retire from government service after attaining age 55 with at least 30 years of service; except for policemen and firemen who can retire with at least 20 years of service, are eligible for these benefits.

As of September 30, 2009, approximately 10,751 active employees, 5,915 service retirees, 1,581 spouses of service retirees covered for medical and dental benefits, 104 disability retirees, and 158 deferred vested (i.e., non-retired employees who have already terminated employment with the PG, but who are eligible for medical and life insurance benefits when they subsequently reach the qualifying age) meet the eligibility requirements of OPEB.

Healthcare, prescription and dental insurance is provided through negotiated contracts with private insurance companies. Participants in the plan may elect coverage for their spouses and dependent children. Participants are required to contribute 35% of medical, prescription and dental premiums. Retirees of UVI that participate in the 403(b) retirement plan may obtain coverage on a fully contributory basis. Life insurance is offered to retirees on a fully contributory basis.

The contribution requirements of plan members and the PG are legislated within the Virgin Islands Code, and may be amended, by the Virgin Islands Legislature. The plan is a non-funded pay-as-you-go plan, and expenditures are paid as they become due. For the years ended September 30, 2009 and 2008, the Legislature budgeted, and paid, $17.8 million and $16.2 million for retiree health insurance payments. Other component unit participants paid $16.9 million for the year ended September 30, 2009 and $15.7 million for the year ended September 30, 2008.

The PG's postemployment benefit cost is calculated on the annual required contribution of the PG, an amount actuarially determined. The first actuarial valuation was prepared as of October 1, 2007, in accordance with provisions of GASB Statement 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."* This standard was implemented prospectively. Prior to the implementation of GASB Statement 45, the PG did not report an OPEB obligation. In future years, the actuarial valuation will be prepared bi-annually. For the fiscal year ended September 30, 2009, a roll-forward of the initial actuarial report was prepared.

14. Retirement Systems (continued)

Postemployment Benefits (continued)

The annual required contribution represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year, and amortize any unfunded actuarial liabilities over a period not to exceed an open thirty (30) year period.

The following table shows the components of the PG's annual postemployment benefits cost for the fiscal years ended September 30, 2009 and 2008, and the changes in the net estimated obligation for future payments of benefits:

Annual OPEB Cost and Net Postemployment Benefit Obligation

In thousands	**2009**	***Restated*** **2008**
Annual required cost of healthcare benefits to retirees	**$ 39,758**	$ 37,865
Interest on underfunded OPEB obligation	**3,166**	3,007
Adjustment to underfunded OPEB obligation	**39,080**	37,313
Annual OPEB cost	**82,004**	78,185
Contributions made	**(34,718)**	(31,929)
Increase in net OPEB liability	**$ 47,286**	$ 46,256
Actuarial computation of OPEB obligation - beginning of year	**$ 1,022,711**	$ 976,455
Increase in net OPEB Liability	**47,286**	46,256
Underfunded OPEB obligation - end of year	**$ 1,069,997**	$ 1,022,711

14. Retirement Systems (continued)

Postemployment Benefits (continued)

The PG's obligation to provide health insurance to retirees is an unfunded plan. The actuarial valuation of the amount required to fund the plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Estimated annual required contributions are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the PG and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the actuarial valuation dated October 1, 2007, liabilities at October 1, 2009 were rolled back to October 1, 2007, and actual benefit payments were used for the fiscal years ending September 30, 2008 and 2009.

Covered health care and dental care expenses were assumed to increase in future years with an initial increase of 10.0% for medical and 7.5% for dental and an ultimate rate of 5.0% for both medical and dental care expenses.

The entry age normal actuarial cost method with costs on a level percentage of payroll basis was used to determine the annual required cost of OPEB benefits to retirees. Amortization is over an open thirty (30) year period as a level percentage of payroll. Payroll growth is assumed to be 3% per year for purposes of amortization.

This method is consistent with the cost method used by GERS and typically produces the most level annual required contribution each subsequent year as a percentage of payroll. The normal cost was rolled back using the ultimate trend rate. A discount rate of 4.0% per annum was used, compounded annually. The valuation assumed that the annual unit cost per covered individual (i.e., retiree or spouse) for fiscal year 2010 was $184 for both under and over age 65. The normal cost reflects the average age of the covered population and is based on claims experience for fiscal years 2008 and 2009, with a two-thirds weighting applied to the more recent year.

14. Retirement Systems (continued)

Postemployment Benefits (continued)

Combined experience and a combined cost were used for the pre-65 and post-65 populations. A composite cost was determined for retirees and spouses by combining their claim experience. Dependent children claims were included in developing the composite retiree and spouse cost. Costs were trended forward to fiscal year 2010 and adjusted to reflect the fiscal 2010 plan design and the anticipated lag in claim payment.

15. Liquidity

Governmental Activities

At September 30, 2009, the Government reported an unrestricted net deficit in governmental activities amounting to $1.1 billion. The net deficit resulted from: 1) the 2008 financial markets collapse and subsequent recession, 2) the delay in the issuance of the 2006, 2007, 2008 and 2009 property taxes due to a class action lawsuit, and 3) the negative effect of Internal Revenue Service regulations redefining the requirements for residency, and sourcing of income, for the Territory. The recession, and Internal Revenue Service regulations, negatively impacted economic growth in the Territory and reduced the participants in the Government's economic development programs. Following is a summary of the Government's unrestricted net deficit for governmental activities for fiscal years 2005 through 2009:

Governmental Activities Unrestricted Net Deficit
(In thousands, as restated)

Fiscal Year	Governmental Unrestricted Net Deficit	Decrease (Increase)
2005	$ (623,511)	$ 53,942
2006	(306,467)	317,044
2007	(335,924)	(29,457)
2008	(513,201)	(177,277)
2009	(1,110,871)	(597,670)

15. Liquidity (continued)

Governmental Activities (continued)

The Government has initiated specific actions to improve its liquidity and future cash flows. The Government issued the Subordinated Lien Revenue Bond Anticipation Notes on September 18, 2009 to provide working capital of $100 million. The Government established the Office of Economic Opportunity to pursue grants through the American Recovery and Reinvestment Act of 2009, to generate jobs, to promote energy efficient appliances and automobiles, and to improve infrastructure. The Government has passed legislation approving tax increment financing to encourage economic development, and has successfully attracted a rum producer (Captain Morgan) and retained an existing rum producer (Cruzan Rum) within the Territory. Most importantly, the Government has imposed budgetary restraints on departments and agencies (limiting expenditures and calling for reductions of government personnel) and has legislated increases in local taxes such as gross receipts taxes and stamp taxes.

General Fund

At September 30, 2009, the Government reported an unreserved fund deficit in the General Fund of $62.5 million. This deficit represents a decrease in fund balance of $162.7 million from the 2008 fiscal year, mainly due to a decrease in General Fund income tax revenues. The decline in income tax revenues is due to the continuing effects of the recession of 2008, and the decrease in participants in the Government's economic development program. Following is a summary of the General Fund's unreserved fund balance for fiscal years 2005 through 2009:

General Fund Unreserved Fund Balance (Deficit)
(In thousands)

Fiscal Year	General Fund - Unreserved Fund Balance (Deficit)	Increase (Decrease)
2005	$130,672	$ 51,297
2006	107,769	(22,903)
2007	171,352	63,583
2008	100,188	(71,164)
2009	(62,482)	(162,670)

To mitigate the effects of the decline in income tax revenues, the Government continues to enforce budgetary restraints and has met certain District Court requirements to release the injunction on the issuance of fiscal year 2006, 2007, 2008 and 2009 property tax billings.

16. Fund and Net Assets Deficit

The following non-major funds have a fund or net assets deficit as of September 30, 2009 (in thousands):

Governmental Funds	
RURAL LIBRARY EXTENSION	$ (589)
FEDERALLY AIDED EDUCATION PROGRAM	(9,089)
SPECIAL FEDERAL GRANT TO EDUCATION	(455)
AIR & WATER POLLUTION CONTROL	(5,492)
VI PLANNING BOARD PROJECTS	(2,981)
HIGHWAY SAFETY	(3,963)
VIRGIN ISLANDS NATIONAL GUARD FEDERAL AND STATE AGREEMENT	(4,221)
FOOD STAMP WELFARE	(2,059)
FEDERAL PROGRAMS/DEPARTMENT CONSTRUCTION	(2,917)
FEDERAL AIDED COMMUNITY ACTION AGENCY	(377)
COMMISSION ON AGING	(27)
ELEMENTARY/SECONDARY EDUCATION	(19)
JOB TRAINING PARTNERSHIP ACT OF 1983-1984	(8,288)
TECHNICAL ASSISTANCE GRANTS-CAPITAL	(67)
HEALTH INFORMATION COUNCIL ASSISTANCE	(18)
DRUG EDUCATION TRAINING PROGRAM	(123)
FEDERAL HEALTH PROGRAM NOT ON FEDERAL LETTER OF CREDIT SYSTEM	(255)
TEXTBOOK REIMBURSEMENT REVOLVING	(161)
RURAL COMMUNITY FIRE PROTECTION PROGRAM	(146)

Proprietary Funds	
BUREAU OF MOTOR VEHICLES	$ (2,018)
UNEMPLOYMENT INSURANCE BENEFIT PAY (VIESA)	(4,643)
HOUSING CONSTRUCTION REVOLVING	(3,004)
EMERGENCY HOUSING FUND	(28)
UNEMPLOYMENT INSURANCE CLEARING (VIESA)	(9,748)
CONSUMER PROTECTION FRAUD	(200)
GOVERNMENT INSURANCE FUND	(18,747)
Proprietary Fund Net Asset Deficits	**$(38,388)**

16. Fund and Net Assets Deficit (continued)

Governmental Funds	
WATER & ELECTRIC SYSTEM PROJECTS	(1,698)
CIVIL DEFENSE PROTECTION	(1,922)
PATERNITY AND CHILD SUPPORT	(11,909)
VI LAW ENFORCEMENT NON-LAPSING	(7,751)
FORENSIC SCIENCE	(66)
VOCATIONAL REHABILITATION	(1,415)
HURRICAN HUGO INSURANCE CLAIMS	(3,908)
VI ARMY NATIONAL GUARD	(2,266)
EMERGENCY DROUGHT RELIEF	(179)
OUTDOOR RECREATION PROGRAM	(40)
NARCOTICS STRIKE FORCE FORFEITURE	(5)
SMALL BUSINESS DEVELOPMENT ADMINISTRATION MANAGERIAL AND TECHNICAL ASSISTANCE	(8)
VOCATIONAL TECHNICAL EDUCATIONAL TRAINING	(20)
JUVENILE DETENTION CENTER FUND NON-LAPSING	(14)
UNEMPLOYMENT SECURYTY ADMINISTRATION	(906)
VIRGIN ISLANDS ENERGY OFFICE	(1,090)
PWD FEDERAL CONTRIBUTION	(2,515)
NATURAL RESOURCE RECLAMATION	(230)
LT GOVERNOR LAW REVISION COMMISSION	(3)
HEALTH INSURANCE AND MEDICAL ASSISTANCE PROGRAM	(545)
MAJOR REPAIR AND IMPROVEMENT	(58)

Governmental Funds	
BOATING SAFETY PROGRAM	(557)
SECTION 12 BOND PROCEEDS	(26,241)
ROAD FUND NON-LAPSING	(6,330)
Total Fund Deficit	**$(110,923)**

17. Restatements of Fund Balances and Net Assets

Primary Government – Governmental Activities

In order to correct prior year errors, the beginning net deficit of the governmental activities was restated by $34.6 million due to an overstatement of other post-employment benefits liability amounting to $15.4 million, an understatement of accumulated depreciation and depreciation expense of $13.4 million, unrecorded grant revenues of $37.1 million, an understatement in capital assets of $3.0 million and an understatement of accounts payable of $7.5 million. The beginning fund balance of the general fund was restated by $7.5 million due to an understatement of accounts payable.

	As Previously Reported	Adjustments	As Restated
Governmental Activities:			
Net deficit, as of October 1, 2008	$ (253,715)	$ 34,614	$ (219,101)
General Fund:			
Fund balance, as of October 1, 2008	$ 154,723	$ (7,470)	$ 147,253

Primary Government – Business-Type Activities

The beginning net assets of the business-type activities and the other enterprise funds were both restated by $726 thousand in order to correct an error related to an understatement of accounts payable.

	As Previously Reported	Adjustments	As Restated
Business-Type Activities:			
Net assets as of October 1, 2008	$ 38,752	$ (726)	$ 38,026
Other Enterprise Funds:			
Net assets as of October 1, 2008	$ 15,024	$ (726)	$ 14,298

17. Restatements of Fund Balances and Net Assets (continued)

Component Units

Beginning net assets of three discretely presented component units were restated to correct material errors identified in prior years as follows (expressed in thousands):

Component Unit	As Previously Reported	Adjustments	As Restated
Virgin Islands Housing Finance Authority	$ 60,169	$ 8,860	$ 69,029
Magens Bay Authority	13,582	(189)	13,393
Virgin Islands Public Television System	8,433	7	8,440
Other component units	623,670	-	623,670
Net Assets	$ 705,854	$ 8,678	$ 714,532

18. Subsequent Events

Primary Government

On October 1, 2009, the PFA issued the Series 2009A-1, Series 2009A-2, Series 2009B and Series 2009C Revenue and Refunding Bonds amounting to $458.8 million, to finance capital projects of the PG amounting to $86.3 million, to current refund the Series 1998A Senior Lien/Refunding Bonds amounting to $266.3 million, to current refund the Series 1998E Surbordinate Lien/Capital Program Bonds amounting to $97.5 million, and to establish debt service reserves amounting to $8.5 million. The Series 2009A-1, A-2, B and C Bonds are special limited obligations of the PG secured by matching fund revenues.

On December 17, 2009, the PFA issued the Series 2009A Bond Subordinated Revenue Bonds, amounting to $39.2 million, to finance capital costs associated with the construction of a wastewater treatment facility and a renovation of a rum distillery located on the island of St. Croix. The Series 2009A Notes are special limited obligations of the PG secured by a pledge of matching fund revenues.

18. Subsequent Events (continued)

Primary Government (continued)

In December 2009, GERS executed loan agreements with Seaborne Airlines (a seaplane service operating on the islands of St. Croix and St. Thomas) and Carambola Northwest, LLC (a condominium, hotel and golf resort on the island of St. Croix). The agreement with Seaborne Airlines provides a term loan of $1.3 million and a convertible note of $2 million, both with terms of five years. The agreement with Carambola Northwest, LLC provides a term loan of $15 million, with a term of five years. Both companies pledged property as collateral.

As of June 30, 2011, the Virgin Islands Office of Economic Opportunity ("OEO"), an agency designated to coordinate and manage American Recovery and Reinvestment ("ARRA") grants for the Government, reports that the Government has been awarded over $175 million in formula funds (the majority of which funded projects for the Office of the Governor, the V.I. Energy Office, the Department of Public Works, and Law Enforcement Planning Commission) and has submitted over $130 million in competitive ARRA grant applications.

In February 2010, in connection with a class-action lawsuit brought by taxpayers, the Third Circuit Court of Appeals denied the primary Government's motion to lift the rescission of the issuance of 2006 property tax assessments at rates based on valuations obtained in fiscal year 2008. The court's decision allowed the Government to issue property tax assessments at the 1998 assessment rate. In March 2010, the Virgin Islands Legislature approved the issuance of the 2006 and 2007 property tax assessments at the 1998 rate. The 2006 property tax assessments were issued in July 2010. On January 20, 2011, the decree enjoining the Government from collecting property taxes at the 1998 assessment rate was vacated, effective with tax year 2010, Property tax assessments for 2007 were issued in February 2011.

On July 8, 2010, the PFA issued the Series 2010A and Series 2010B Revenue Bonds, the proceeds of which amounted to $399 million. These bonds are limited special obligations of the PFA, secured by a pledge of matching fund revenues. The proceeds were loaned to the primary Government under the same terms as the bonds. The Series 2010A bonds were issued to: (i) finance various operating expenses of the Government, (ii) refinance a portion of the outstanding Series 2009B Notes, (iii) fund debt service reserves, and (iv) to finance certain costs of issuance

18. Subsequent Events (continued)

Primary Government (continued)

of the Series 2010A Bonds. The Series 2010B Bonds were issued to: (i) refinance a portion of the outstanding Series 2009B Notes, (ii) fund the Series 2010B Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2010B Bonds. The Series 2010A Bonds amounted to $305 million and mature from 2012 to 2029. The Series 2010B Bonds amounted to $94 million and mature from 2020 to 2029.

On October 9, 2010, the PFA authorized a $45 million letter of credit facility with a local bank, to fund the Insurance Guaranty Fund reserve account, which previously had consisted of certificates of deposit. The released certificates of deposit were subsequently utilized on October 14, 2010 for the payment of $36.5 million in retroactive wages and $8.5 million in related payroll costs.

On November 4, 2010, PFA entered into the Subordinated Lien Revenue Bond Anticipation Notes (the "Series 2010A Notes), which modified and amended the Series 2009B Notes, extending the maturity date to October 1, 2013, and a maximum amount of $78.8 million from the Agent Lender and $52.6 from the Syndicate Lender. The lenders transferred the balance of $6.4 million from the 2009B Notes to the Series 2010A Notes.

On April 29, 2011, PFA entered into the Subordinated Revenue Bond Anticipation Note Purchase Agreement with Banco Popular de Puerto Rico, to purchase $32.2 million in Subordinated Revenue Bond Anticipation Notes ("the Series 2011A Notes") to finance the costs of development, purchase of equipment and construction of broadband technology and infrastructure. The Series 2011A Notes have a term of one year, maturing on April 29, 2012. If the Series 2011A Notes are not defeased through long-term financing, the PG may convert the Notes to term notes.

18. Subsequent Events (continued)

Primary Government (continued)

On June 9, 2011, the United States Department of Justice (USDOJ) filed a motion for the appointment of a receiver to manage and operate the Golden Grove Adult Correctional Facility (the Facility) in St. Croix. This motion was made in the litigation that has been pending for 20 years. The Government has filed an opposition to the USDOJ's motion. The V.I. Department of Justice believes that the District Court will deny the motion because in the opinion of the Government, the V.I. Bureau of Corrections has made and continues to make significant progress and improvements in the Facility and the Government intends to vigorously resist any Federal takeover of the Facility.

In the event a receiver is appointed, it is not anticipated that there will be a transfer of any Government's assets to the U.S. Government. The funds appropriated by the Legislature to the Bureau of Corrections will be used to operate the Facility. The remote possibility exists that the receiver may demand additional resources be made available for further improvements to the Facility; however, we cannot determine at this time what additional resources may be required.

Component Units

In September 2009, the VIHFA executed a memorandum of understanding (MOU) with the Virgin Islands Water and Power Authority (WAPA) to share in the costs of a study into the feasibility of using land owned by the Authority for the development of administrative office space to be leased by WAPA. In May 2010, another MOU was executed regarding the financing and construction of the project.

In March 2010, WAPA issued the Electric System Revenue Bonds Series 2010A, 2010B and 2010C amounting to $85.3 million. The proceeds of the bonds will be used to refund a portion of the Series 1998 Refunding Bonds, to make deposits into the debt service fund, and to pay the costs of issuance of the bonds. The Series 2010 bonds are limited obligations of WAPA, secured by the Electric Revenue Bond Resolutions. The Series 2010 bonds are not an obligation of the PG.

Government of U.S. Virgin Islands

Schedules of Funding Progress

September 30, 2009

Employees Retirement System of the Government of the U.S. Virgin Islands

Actuarial valuation Date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
Pension Plan						
2007(*)	$1,509,244,380	$1,241,138,878	$2,750,383,258	54.87%	$419,161,255	296.10%
2008(**)	1,530,604,789	1,310,218,726	2,840,823,515	53.88%	433,549,406	302.21%
2009(***)	1,534,899,736	1,397,261,661	2,932,161,397	52.35%	458,154,309	304.98%

(*) Estimated based on the financial information provided as of September 30, 2006, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2003, assuming that actual experience during the October 1, 2003 to September 30, 2007, matched that assumed by the actuarial assumptions.

(**) Estimated based on the financial information provided as of September 30, 2007, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2008, matched that assumed by the actuarial assumptions.

(***) Estimated based on the financial information provided as of September 30, 2009, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2009, matched that assumed by the actuarial assumptions.

Actuarial valuation -September 30, 2006 and thereafter:
Actuarial accrued liability determined under the entry age normal method.

Required Supplementary Information (other than MD&A)

Government of United States Virgin Islands

Schedules of Funding Progress (continued)

Postemployment Benefits Other Than Pensions

Actuarial valuation Date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
OPEB						
2008	$ –	$1,022,711,000	$1,022,711,000	$ –	$433,549,406	235.89%
2009	–	1,069,997,000	1,069,997,000	–	458,154,309	233.55%

Required Supplementary Information (other than MD&A)

Employees' Retirement System of the Government of U.S. Virgin Islands

Schedule of Employer Contributions

September 30, 2009

	Annual required contributions	Contributions made	Percentage contributed
Year ended September 30,			
2007*	$137,797,268	$60,778,382	44.11%
2008*	138,488,871	75,871,146	54.79%
2009*	147,490,851	80,177,004	54.36%

* Estimated based on Fiscal Year 2006 actuarial valuation.

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government) as of and for the year ended September 30, 2009, which collectively comprise the Government's basic financial statements, and have issued our report thereon dated July 25, 2011. Our report was modified to include a reference to other auditors. In addition, the scope of our audit work was not sufficient to enable us to express, and we did not express, an opinion on the financial position, the changes in the financial position and cash flows, where applicable, of the business-type activities and aggregate remaining fund information as of and for the year ended September 30, 2009, because the basic financial statements do not include a liability for medical malpractice claims in the guaranty insurance fund (a non-major enterprise fund). The Government's records do not permit, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities and the aggregate remaining fund information may have been affected by this condition.

In addition, our auditors' report for the aggregate discretely presented component units and the governmental activities, based on our audit and the reports of other auditors, was qualified for the following:

- The effect of the adjustments, if any, as might be determined to be necessary, had the other auditors been able to obtain sufficient audit evidence to determine whether, (1) loans receivable of $4.2 million in the financial statements of VIEDA, and (2) capital assets of $12.2 million in the financial statements of VIPTS, were fairly stated, as described in paragraphs four and five of the Report of Independent Auditors.

- The effects of the adjustments as might have been determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether the accrued compensated absences liability, the and landfill closure and post-closure liability, and the retroactive union arbitration liability in the governmental activities were fairly stated, as described in paragraph eight of the Report of Independent Auditors.

Except as described above, we conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the Virgin Islands Public Finance Authority (PFA), the West Indian Company (WICO), the Tobacco Settlement Financing Corporation (TSFC), Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (WIPTS), Virgin Islands Lottery (VI Lottery), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), Employees' Retirement System of the Government of the Virgin Islands (GERS), Waste Management Authority (WMA), and the Virgin Islands Housing Finance Authority (VIHFA), as described in our report on the Government's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the PFA, Juan Luis Hospital and Medical Center, MBS, TSFC, WMA, and GERS were not audited in accordance with *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Government's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider items 09-01 through 09-11 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Government's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 09-02.

The Government's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Government's responses and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Honorable Governor of the U.S. Virgin Islands, management, others within the entity, Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst + Young LLP

July 25, 2011

Single Audit Report Section

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Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

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

Compliance

We have audited the compliance of the Government of the United States Virgin Islands (the Government) with the types of compliance requirements described in the US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major Federal programs for the year ended September 30, 2009. The Government's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of the Government's management. Our responsibility is to express an opinion on the Government's compliance based on our audit.

The Government's basic financial statements include the operations of the discretely presented component units (as defined in the notes to the Government's basic financial statements), some of which received Federal awards, which are not included in the Schedule of Expenditures of Federal Awards for the year ended September 30, 2009. Our audit described below did not include the operations of the aforementioned component units because the component units engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Government's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Government's compliance with those requirements.

The Government did not comply with the types of compliance requirements that are applicable to each major Federal program as described in the accompanying schedule of findings and questioned costs and referenced by finding number below:

CFDA Number	Major Program	Compliance Requirement	Finding Reference
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Equipment and Real Property Management	09-18
		Matching, Level of Effort, Earmarking	09-19
		Reporting	09-20
17.225	Unemployment Insurance	Cash Management	09-27
		Eligibility	09-21, 09-22
		Reporting	09-25, 09-26
		Special Tests and Provisions: Match with IRS 940 FUTA Tax Form	09-23
		Special Tests and Provisions: Unemployment Insurance (UI) Benefits Payment	09-24
17.258/259/260	WIA Cluster	Cash Management	09-30
		Eligibility	09-29
		Reporting	09-28
20.205	Highway Planning and Construction	Activities Allowed or Unallowed	09-32
		Allowable Costs/Cost Principles	09-32
		Cash Management	09-31
		Reporting	09-32
97.067	Homeland Security Grant Program	Cash Management	09-57
		Equipment and Real Property Management	09-55
		Reporting	09-56

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

In our opinion, because of the effects of the noncompliance described in the table above, the Government did not comply, in all material respects, with the requirements referred to above that are applicable to the following major Federal programs: National Guard Military Operations and Maintenance (O&M) Projects (CFDA No. 12.401); Unemployment Insurance (CFDA No. 17.225); WIA Cluster (CFDA Nos. 17.258/259/260); Highway Planning and Construction (CFDA No. 20.205); and Homeland Security Grant Program (CFDA No. 97.067) for the year ended September 30, 2009.

The Government did not comply with the types of compliance requirements that are applicable to each major Federal program as described in the accompanying schedule of findings and questioned costs and referenced by the finding numbers below:

CFDA Number	Major Program	Compliance Requirement	Finding Reference
93.558	Temporary Assistance for Needy Families	Cash Management	09-37
		Reporting	09-38
		Special Tests and Provision: Income Eligibility and Verification System (IEVS)	09-39
93.600/708	Head Start Cluster	Cash Management	09-43
		Equipment and Real Property Management	09-44
		Matching, Level of Effort, Earmarking	09-45
93.778	Medical Assistance Program	Cash Management	09-49, 09-52
		Eligibility	09-50
		Reporting	09-51, 09-52
		Special Tests and Provisions: Utilization Control and Government Integrity	09-48
		Special Tests and Provisions: Automated Data Processing Risk Analysis and System Security Review	09-53
		Special Tests and Provisions: Inpatient Hospital and Long-Term Care Facility Audits	09-54

Compliance with such requirements is necessary, in our opinion, for the Government to comply with the requirements applicable to those programs.

Also, in our opinion, except for the noncompliance described in the table above, the Government complied, in all material respects, with the requirements referred to that are applicable the following major Federal programs: Temporary Assistance for Needy Families (CFDA No. 93.558); Head Start Cluster (CFDA Nos. 93.600/708); and Medical Assistance Program (CFDA No. 93.778) for the year ended September 30, 2009.

Moreover, in our opinion, the Government complied, in all material respects, with the requirements referred to in the first paragraph, that are applicable to each of its major Federal programs, other than those major programs referred to in the two preceding tables for the year ended September 30, 2009.

However, the results of our auditing procedures also disclosed other instances of non-compliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 09-12 through 09-17, 09-33, 09-35, 09-40 through 09-42, and 09-46.

Internal Control over Compliance

The management of the Government is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the Government's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of the internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Government's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 09-12 through 09-49 and 09-51 through 09-57 to be significant deficiencies.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 09-12 through 09-49 and 09-51 through 09-57 to be material weaknesses.

The Government's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Government's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Honorable Governor of the Government of the United States Virgin Islands, management, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

July 25, 2011

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2009

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures	
	U.S. Department of Agriculture		
10.025	Plant and Animal Disease, Pest Control, and Animal Care		$ 84,325
10.056	Farm Storage Facility Loans		15,193
10.156	Federal-State Marketing Improvement Program		12,596
10.170	Specialty Crop Block Grant Program - Farm Bill		42,766
10.551	Supplemental Nutrition Assistance Program (SNAP)	$ 33,692,878	
10.561	State Administrative Matching Grants for Supplemental Nutrition Assistance Program	4,622,346	
	SNAP Cluster total (10.551/561)		38,315,224
10.555	National School Lunch Program (NSLP)	8,448,483	
10.555	ARRA-National School Lunch Program (NSLP)	7,471	
10.559	Summer Food Service Program for Children (SFSPC)	494,735	
	Child Nutrition Cluster total (10.555/559)		8,950,689
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)		9,036,992
10.558	Child and Adult Care Food Program		1,167,714
10.560	State Administrative Expenses for Child Nutrition		91,054
10.568	Emergency Food Assistance Program (Administrative Costs)		5,218
10.579	ARRA-Child Nutrition Discretionary Grants Limited Availabity		14,317
10.652	Forestry Research		964
10.664	Cooperative Foresty Assistance		140,149
10.676	Forest Legacy Program		120,949
10.678	Forest Stewardship Program		30,521
			58,028,670
	U.S Department of Commerce		
11.302	Economic Development Support for Planning Organizations		68,005
11.405	Anadromous Fish Conservation Act Program		6,222
11.407	Interjudisdictional Fisheries Act of 1986		4,344
11.419	Coastal Zone Management Administration Awards		1,134,948
11.426	Financial Assistance for National Centeres for Coastal Ocean Science		124,759
11.433	Marine Fisheries Initiative		94,861
11.434	Cooperative Fisheries Statistics		152,663
11.435	Southeast Area Monitoring and Assessment Program		31,206
11.441	Regional Fishery Management Councils		3,801
11.555	Public Safety Interoperable Communications Grant Program		800,054
			2,420,863
	U.S Departmnet of Defense		
12.401	National Guard Military Operations and Maintenance (O&M) Projects		4,647,180
	U.S Department of the Interior		
15.633	Landower Incentive Proram	2,238	
15.605	Sport Fish Restoration Program	1,281,983	
15.611	Wildlife Restoration	325,189	
	Fish and Wildlife Cluster Total (15.605/608/611)		1,609,410
15.615	Cooperative Endangered Species Conservation Fund		51,025
15.626	Hunter Education and Safety Program		67,250
15.634	State Wildlife Grants		75,225
15.875	Economic , Social, and Political Development of the Territories and the Freely Associated States		924,360
15.904	Historic Preservation Fund Grants - In-Aid		600,020
15.916	Outdoor Recreation-Acquisition, Development and Planning		51,505
			3,378,796
	U.S Department of Justice		
16.200	Community Relations Service		(12,073)
16.202	Prisoner Reentry Initiative Demonstration (Offender Reentry)		1,823
16.523	Juvenile Accountability Block Grants		75,069
16.540	Juvenile Justice and Deliquency Prevenion - Allocation to States		81,150
16.554	National Criminal History Improvement Program (NCHIP)		(7,970)
16.575	Crime Victim Assistance		527,674
16.579	Edward Byrne Memorial Formula Grant Program		7,271
16.588	Violence Against Women Formula Grants		856,952
16.593	Residential Substance Abuse Treatment for State Prisoners		15,851

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2009

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures	
16.606	State Criminal Alien Assistance Program		508,818
16.710	Public Safety Partnership and Community Policing Grants		1,142,945
16.738	Edward Byrne Memorial Justice Assistance Grant Program		547,117
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program		94,715
16.750	Support for Adam Walsh Act Implementation Grant Program		463
			3,839,807
	U.S Department of Labor		
17.002	Labor Force Statistics		376,036
17.005	Compensation and Working Conditions		174,651
17.207	Employment Service/Wagner-Peyser Funded Activities	1,495,606	
17.207	ARRA-Employment Service/Wagner-Peyser Funded Activities	16,828	
	Employment Service/Wagner-Peyser Funded Activities total		1,512,434
17.225	Unemployment Insurance		33,543,368
17.225	ARRA - Unemployment Insurance		502,475
17.235	Senior Community Service Employment Program	1,122,237	
17.235	ARRA-Senior Community Service Employment Program	7,072	
	Senior Community Service Employment Program total		1,129,309
17.258	WIA Adult Program	1,629,967	
17.258	ARRA-WIA Adult Program	607,558	
17.259	WIA Youth Activities	1,306,044	
17.260	WIA Dislocated Workers	131,543	
	WIA Cluster total (17.258/259/260)		3,675,112
17.266	Work Incentive Grants		188
17.503	Occupational Safety and Health State Program		41,029
			40,954,602
	U.S Department of Transportation		
20.205	Highway Planning and Construction	23,703,799	
20.205	ARRA-Highway Planning and Construction	42,332	
	Highway Planning and Construction total		23,746,131
20.218	National Motor Carrier Safety		325,717
20.500	Federal Transit - Capital Investment Grants	3,098	
20.507	Federal Transit Formula grant	28,202	
20.507	ARRA-Federal Transit Formula grant	1,788	
	Federal Transit Cluster total (20.500/507)		33,088
20.509	Formula Grants for Other than Urbanized Areas		(19,649)
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities		628,873
20.514	Public Transportation Research		14,377
20.600	State and Community Highway Safety		1,053,807
			25,782,344
	Institute of Museum and Library Services		
45.303	Conservation Project Support		3,000
45.310	Grants to States		94,467
			97,467
	U.S Enviromental Protection Agency		
66.034	Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act		31,649
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act		3,315
66.454	Water Quality Managmeent Planning		13,831
66.461	Regional Wetland Program Development Grants		47,218
66.468	Capitalization Grants for Drinking Water State Revolving Fund		1,727,265
66.472	Beach Monitoring and Notification Program Implementation Grants		309,041
66.474	Water Protection Grants to States		14,735
66.605	Performance Partnership Grants		114,340
66.608	Environmental Information Exchange Network Grant Program and Related Assistance		2,081
66.708	Pollution Prevention Grants Program		550
66.805	Leaking Underground Storage Tank Trust Fund		2,327,029
66.817	State and Tribal Response Program Grants		133,559
			4,724,613

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2009

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures	
	U.S Department of Energy		
81.041	State Energy Program	176,518	
81.041	ARRA-State Energy Program	40,895	
	State Energy Program total		217,413
81.042	ARRA-Weatherization Assistance for Low Income Persons		43,210
			260,623
	U.S Department of Education		
84.002	Adult Education - State Grant Program		705,930
84.027	Special Education - State Grant Program (IDEA, Part B)		11,777,307
84.048	Career and Technical Education -- Basic Grants to States		967,319
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States		2,244,877
84.169	Independent Living - State Grants		23,925
84.177	Rehabilitation Services - Independent Living Services for Older Individuals Who Are Blind		76,266
84.185	Byrd Honors Scholarships		70,500
84.186	Safe and Drug-Free Schools and Communities State Grants		1,068,351
84.187	Supported Employment Services for Individuals with Severe Disabilities		65,740
84.215	Fund for the Improvement of Education		65,536
84.287	Twenty-First Century Community Learning Centers		650,868
84.298	State Grants for Innovative Programs (Part A, Title V)		31,177,289
84.357	Reading First State Grants		1,075,460
84.364	Literacy Through School Libraries		3,920
84.365	English Language Acquisition Grant		594,386
			50,567,674
	U.S. Department of Health and Human Services		
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services		25,825
93.048	Special Programs for the Aging-Title IV-and Title II-Discretionary Projects		45,580
93.069	Public Health Emergency Preparedness		220,093
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs		89,043
93.127	Emergency Medical Services for Children		73,477
93.130	Cooperative Agreements to States/Territories for the Coordination and Development of Primary Care Offices		56,759
93.136	Injury Prevention and Control Research and State and Community Based Programs		18,529
93.150	Projects for Assistance in Transition from Homelessness (PATH)		50,000
93.153	Coordinated Services and Access to Research for Women, Infants, Children, and Youth		167,785
93.217	Family Planning-Services		1,008,394
93.224	Consolidated Health Centers		97,499
93.235	Abstinence Education Program		49,321
93.243	Substance Abuse and Mental Health Services-Projects of Regional and National Significance		(276,892)
93.268	Immunization Grants		1,912,383
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance		583,337
93.296	State Partnership Grant Program to Improve Minority Health		47,569
93.558	Temporary Assistance for Needy Families (TANF)		3,857,167
93.563	Child Support Enforcement		5,353,009
93.575	Child Care and Development Block Grant		1,644,152
93.597	Grants to States for Access and Visitation Programs		109,313
93.600	Head Start	8,251,723	
93.600	ARRA-Head Start	223,878	
93.708	ARRA-Head Start	231,693	
	Head Start Cluster total		8,707,294
93.617	Voting Access for Individuals with Disabilities-Grants to States		65,837
93.667	Social Services Block Grant		5,573,738
93.667	ARRA - Social Services Block Grant		231,693
93.767	State Children's Insurance Program		13,674
93.778	Medical Assistance Program (Medicaid; Title XIX)		11,139,814
93.782	Medicare Transitional Drug Assistance Program for Territories		46,329
93.889	National Bioterrorism Hospital Preparedness Program		53,965

Government of the United States Virgin Islands

Schedule of Expenditures of Federal Awards (continued)

Year Ended September 30, 2009

CFDA Number	Federal grantor/ pass through grantor / program or cluster title	Federal Expenditures
93.917	HIV Care Formula Grants	1,260,834
93.938	Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	41,023
93.940	HIV Prevention Activities-Health Department Based	237,690
93.941	HIV Demonstration, Research, Public and Professional Education Projects	145,768
93.943	Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	285,989
93.944	Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	1,965
93.958	Block Grants for Community Mental Health Services	94,135
93.959	Block Grants for Prevention and Treatment of Substance Abuse	448,491
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	194,373
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluation of Surveillance Systems	238,613
93.991	Preventive Health and Health Services Block Grant	193,980
93.994	Maternal and Child Health Services Block Grant to the States	1,685,938
		45,793,486
	Corporation for National and Community Service	
94.002	Retired and Senior Volunteer Program	28,328
94.011	Foster Grandparent Program	181,617
		209,945
	Executive Office of the President	
95.001	High Intensity Drug Trafficking Areas Program	140,335
	Department of Homeland Security	
97.003	Agriculture Inspection	4,776
97.012	Boating Safety Financial Assistance	611,000
97.017	Pre-Disaster Mitigation (PDM) Competitive Grants	745,842
97.036	Disaster Grants - Public Assistance (Presidentally Declared Disasters)	112,730
97.042	Emergency Management Performance Grants	743,551
97.070	Map Modernization Management Support	36,472
97.067	Homeland Security Grant Program	4,071,175
97.078	Buffer Zone Protection Program	188,522
		6,514,069
	Total expenditures of federal awards	**$ 247,360,471**

See accompanying notes

Government of the United States Virgin Islands

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2009

1. Basis of Presentation

For purposes of complying with the Single Audit Act Amendments of 1996, the Government of the United States Virgin Islands (the Government or GVI) is defined in a manner consistent with the entity defined in the basic financial statements as of and for the year ended September 30, 2009, except that the component units (as defined in the notes to the aforementioned basic financial statements) are excluded. Accordingly, the accompanying Schedule of Expenditures of Federal Awards (the Schedule) presents the Federal financial assistance programs administered by the Government for the year ended September 30, 2009, excluding the component units.

2. Basis of Accounting

The accompanying Schedule was prepared using the modified accrual basis of accounting, except for nonmonetary programs, which are presented based on the fair value of the food stamps (CFDA No. 10.551 in the amount of $33,692,878), the food commodities (CFDA No. 10.555 in the amount of $480,753), and the food costs (CFDA No. 10.557 in the amount of $5,880,323) distributed during the year. The Government's accounting system provides the primary information from which the Schedule is prepared.

3. Matching Costs

Matching costs, such as the nonfederal share of certain program costs, are not included in the accompanying Schedule, except Unemployment Insurance (CFDA No. 17.225), as indicated in Note 6.

4. Relationship to Federal Financial Reports

The regulations and guidelines governing the preparation of Federal financial reports vary by Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal financial reports do not necessarily agree with the amounts reported in the accompanying Schedule, which is prepared on the basis explained in Notes 1 and 2.

4. Relationship to Federal Financial Reports (continued)

Office of Management and Budget (OMB) Circular A-133 requires that Federal financial reports and claims for advances and reimbursements contain information that is supported by the books and records from which the basic financial statements have been prepared. The Government's departments prepare the Federal financial reports and claims for advances and reimbursements primarily based on information from the internal accounting records of the respective Goverment's program departments. However, these records do not agree with the accounting records of the Government's accounting system in all instances. The Government's departments, in various instances, do not prepare a reconciliation of the internal accounting records of the Federal programs with the Government's accounting system. See Finding No. 09-11 in the accompanying Schedule of Findings and Questioned Costs.

5. Consolidated Block Grants

The Government was granted a consolidated grant award under Title V of Public Law 95-134. The consolidated grant to insular areas permits the consolidation of two or more authorized programs under one application to provide for simplified reporting procedures and flexibility in allocating funds to meet educational needs. The most significant programs under which the Virgin Islands' Department of Education used and administered the funds and the cash disbursements for each program for the fiscal year ended September 30, 2009, are the following:

Federal CFDA Number	Program Title	Expenditures
84.002	Adult Education – State Grant Program	$ 705,930
84.027	Special Education State Grant Program (IDEA, Part B)	11,777,307
84.048	Career and Technical Education – Basic Grants to States	967,319
84.298	State Grants for Innovative Programs (Part A, Title V)	31,177,289
		$44,627,845

6. Unemployment Insurance Expenditures

OMB Circular A-133 Compliance Supplement requires the Unemployment Insurance Program (CFDA No. 17.225) to include the state funds as well as the Federal funds in the total expenditures of the program. Consequently, the total amount of expenditures presented in the accompanying Schedule is composed of the following:

Federal fund expenditures (Administration)	$ 2,365,464
State fund expenditures (Trust fund)	31,680,379
Total expenditures	$34,045,843

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs

September 30, 2009

Part I - Summary of Auditor's Results

Financial Statement Section

Type of auditor's report issued on the basic financial statements:

Opinion Unit	Type of Report
Governmental activities	Qualified
Business-type activities	Disclaimer
Discretely presented component units	Qualified
General fund	Unqualified
PFA debt service fund	Unqualified
PFA capital projects fund	Unqualified
West Indian Company fund - enterprise fund	Unqualified
Aggregate remaining fund information	Disclaimer

Internal Control over Financial Reporting

Material weaknesses identified?.. Yes

Significant deficiencies identified? .... No

Noncompliance material to financial statements noted?.. Yes

Federal Award Section

Internal control over major programs:

Material weaknesses identified?.. Yes

Significant deficiencies identified that are not considered to be material weaknesses?........ No

Part I - Summary of Auditor's Results (continued)

Federal Award Section (continued)

Type of auditor's report issued on compliance for major programs:

CFDA Number	Major Program	Type of Report Issued on Compliance
10.551,10.561	SNAP Cluster	Unqualified
10.555,10.559	Child Nutrition Cluster	Unqualified
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	Unqualified
12.401	National Guard Military Operations and Maintenance (O&M) Projects	Adverse
17.225	Unemployment Insurance	Adverse
17.258,17.259,17.260	WIA Cluster	Adverse
20.205	Highway Planning and Construction	Adverse
84.027	Special Education - State Grant Program (IDEA, Part B)	Unqualified
84.298	State Grants for Innovative Programs	Unqualified
93.558	Temporary Assistance for Needy Families	Qualified
93.563	Child Support Enforcement	Unqualified
93.600,93.708	Head Start Cluster	Qualified
93.667	Social Services Block Grant	Unqualified
93.778	Medical Assistance Program	Qualified
97.067	Homeland Security Grant Program	Adverse

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133.................................... Yes

Government of the United States Virgin Islands

Schedule of Findings and Questioned Costs (continued)

September 30, 2009

Part I - Summary of Auditor's Results (continued)

Identification of Major Programs

CFDA Number	Major Program
10.551,10.561	SNAP Cluster
10.555,10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225	Unemployment Insurance
17.258,17.259,17.260	WIA Cluster
20.205	Highway Planning and Construction
84.027	Special Education - State Grant Program (IDEA, Part B)
84.298	State Grants for Innovative Programs
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.600,93.708	Head Start Cluster
93.667	Social Services Block Grant
93.778	Medical Assistance Program
97.067	Homeland Security Grant Program

Dollar threshold used to distinguish between Type A and Type B programs:... $3 million

Auditee qualified as low-risk auditee:.. No

Part II - Financial Statements Findings Section

This section identifies the significant deficiencies, material weaknesses, fraud, illegal acts, violations of provisions of contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-01

Topic
The Government has control deficiencies in its internal controls, accounting and financial management systems, budgetary controls and financial reporting practices. Due to their nature and magnitude, these control deficiencies are considered to be a material weakness.

Category
Internal Control

Criteria
Auditees must prepare their financial statements in accordance with accounting principles generally accepted in the United States (GAAP). OMB Circular A-133 section 310, states that the auditee shall prepare financial statements that reflect its financial position, results of operations or changes in net assets, and, where appropriate, cash flows for the fiscal year audited.

GASB Codification Section 1100, *Summary Statement of Principles*, states that a governmental accounting system must make it possible both: (a) to present fairly and with full disclosure the funds and activities of the governmental unit in conformity with GAAP, and (b) to determine and demonstrate compliance with finance-related legal and contractual provisions.

GASB Codification Section 1300, *Fund Accounting*, states that governmental accounting systems should be organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts to record cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

GASB Codification Section 1900, states that governmental entities should prepare interim and year-end financial statements and reports of financial position, operating results, and other pertinent information to facilitate management control of financial operations, legislative oversight, and for external reporting purposes.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-01 (continued)

Criteria (continued)
OMB Circular A-102 Subpart C, Section 20, states that a state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the state, as well as its subgrantees and cost-type contractors, must be sufficient to permit preparation of reports required by this part and the statutes authorizing the grant, and permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes. The financial management systems must meet the following standards:

- *Financial reporting:* accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

- *Accounting records:* grantees and subgrantees must maintain records that adequately identify the source and application of funds provided for financially assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

- *Internal control:* effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets. Grantees and subgrantees must adequately safeguard all such property and must assure that it is used solely for authorized purposes.

- *Budget control:* actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement. If unit cost data are required, estimates based on available documentation will be accepted whenever possible.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-01 (continued)

Criteria (continued)

- *Allowable cost:* applicable OMB cost principles, agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs.

- *Source documentation:* accounting records must be supported by such source documentation as canceled checks, paid invoices, payrolls, time and attendance records, contract and subgrant award documents, etc.

- *Cash management:* procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements.

In addition to the above requirements, the Government's internal controls must provide for reconciliation of amounts reflected in control accounts with subsidiary records and the reconciliation of transactions and balances between different departments and agencies.

Condition Found

The Government has inadequate internal controls and has not established accounting policies, procedures, and financial reporting practices necessary to conform to generally accepted accounting principles (GAAP), as applicable to governmental entities. Significant deficiencies noted are as follows:

- There is a lack of effective internal controls to reasonably assure compliance with the requirements of Federal laws, regulations and Program compliance requirements. The Government has deficiencies in internal control such as the absence of sufficient level of

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-01 (continued)

Condition Found (continued)

control consciousness throughout all of the Government's separate administrative operations, the absence of an appropriate segregation of duties, the absence of appropriate management review and approval of transactions, accounting entries and financial and other reporting.

- There are inadequate procedures for appropriately assessing and applying accounting principles, inadequate provisions for the safeguarding of assets, the absence of an accounting procedures manual and the absence of many controls considered appropriate for an entity of this size and type.

Due to their nature and magnitude, these significant deficiencies are considered to be a material weakness.

Questioned Costs
Not applicable.

Underlying Cause
The Government's management has not adopted and enforced internal control policies and procedures over its accounting and financial management, budgetary practices and financial reporting.

Effect
The Government's ineffective internal controls are conducive to many deficiencies as described in the numerous findings contained in this report. The continued existence of these deficiencies could result in significant cost disallowances by the Federal awarding agencies due to unsupported or inappropriate costs, or ultimately, in the reduction or elimination of Federal awards received by the Government.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-01 (continued)

Recommendation
The Government should implement internal controls to provide reasonable assurance that:

- Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and Federal reports; maintain accountability over assets; and demonstrate compliance with laws, regulations, and other compliance requirements
- Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition.

Management's Response
With the exception of the comments noted with respect to the lack of policy and procedure documents, which were in place and updated via various correspondences to government agencies and departments, we concur with the auditors' findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-02

Topic
The Government did not comply with the established due date for the submission of the required Single Audit Report. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Controls/Compliance

Criteria
OMB Circular A-133, Subpart C, Section 320a establishes that all audits shall be completed and submitted to the cognizant agency within the earlier of 30 days after receipt of the auditor's report or nine (9) months after the end of the audit period.

Condition Found
The Government did not comply with the required submission date of the Single Audit for the fiscal year ended September 30, 2009. The due date for this report was no later than June 30, 2010.

Questioned Costs
Not applicable.

Underlying Cause
Due to the failure to ensure that adequate accounting records exist and that the timely and accurate closing of books occurs, management did not comply with the requirements established in OMB Circular A-133.

Effect
The Government could be exposed to a reduction or elimination of funding by the Federal awarding agencies.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-02 (continued)

Recommendation
The Government should establish monthly and year-end closing schedules and improve its year-end closing procedures to allow for the timely completion of its financial statements and performance of the Single Audit and enable the Government to comply with the reporting requirements established by applicable regulations.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-03

Topic
The Government's lack of control over the income, property and sales tax revenues processes led to significant audit adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Management's calculation of its tax revenues processes were not properly performed, resulting in significant audit adjustments. The following items resulted in audit adjustments which could have been prevented had Management implemented sound internal controls over its taxes revenue recognition processes: (a) Management used an inappropriate date on the report used to calculate the income tax receivable causing an overstatement of revenues, and (b) the calculation for property tax receivables was not properly supported and was significantly understated.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the tax revenue process was not effective in all instances.

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-03 (continued)

Recommendation
The Government's DOF should be more closely involved in the monitoring and review of the tax revenues processes. Management should consider performing this process on a quarterly basis in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-04

Topic
The Government's lack of control over the grant revenues and expenditures process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Management's procedures over its Federal grant revenues and expenditures did not prevent or detect timely the following errors: (a) Department of Public Works Federal grants managed by the Eastern Federal Lands Highway Division (a third party) were not recorded in the financial statements and (b) errors in the reconciliation of Federal grants receivable lead to an understatement in grant revenues.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the grant revenues and expenditures, including grants receivable was not effective in all instances. Coordination between the Office of Management and Budget, the third party, and the DOF is essential in ensuring Federal grants and expenditures are properly recorded financial statements of the Government.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-04 (continued)

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements. This could result in a material misstatement of the financial statements.

Recommendation
The Government's DOF and OMB should coordinate the performance quarterly reconciliations of grant revenues and expenditures in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition as is relates to Federal grants.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-05

Topic
The Government's lack of control over transactions with its component units led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Lack of review of classification and reporting of transactions with component units led to significant errors, some which related to prior periods, in amounts due to and from component units in the financial statements of the Government. In addition, during our review of capital assets, we noted that the Government had capitalized capital contributions made to other component units in its financial statements, which led to a duplication of capital assets.

Questioned Costs
Not applicable.

Underlying Cause
The Government does not have an effective process to review the classification and reporting of transactions between component units and the Government.

Effect
This control deficiency led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements, some which related to prior periods.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-05 (continued)

Recommendation

The Government's management should be more closely involved in the monitoring and review of the transactions with its component units, in order to detect and correct errors on a timely basis, while enhancing the Government's knowledge over its financial condition. A formal process should be established for a quarterly review by the Department of Finance of transactions and amounts due to component units. In addition, the Government should establish a procedure of obtaining a reporting package from all of its component units to confirm the classification and reporting of transactions with its component units. This reporting package will standardize and simplify the process of reviewing transactions with component units.

Management's Response

The Government concurs with the auditor's findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-06

Topic
The Government's lack of control over its capital assets process led to significant adjustments, including a prior period adjustment, in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A sound system of internal controls is essential in enabling the Government to prepare timely and accurate financial statements by helping ensure that all financial transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
During our review of construction in progress accounts, we noted a significant number of projects that had items capitalized that should have been expensed as repair and maintenance. Some of these items related to prior periods and were recorded as prior period adjustments.

Questioned Costs
Not applicable.

Underlying Cause
There is a lack of timely coordination between the Department of Finance, the Department of Property and Procurement, and the Department of Public Works. In addition, the delay of the implementation of the capital assets ERP module required that the capital assets process be a manual process, which makes the process prone to error.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-06 (continued)

Effect
The lack of supervisory review and coordination between the mentioned agencies led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements.

Recommendation
The Government should continue its implementation of its ERP capital asset module. A formal procedure should be established to perform a quarterly review the status of construction in progress accounts and capital assets that may require impairment.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-07

Topic
The Government's lack of control over the accounts payable reconciliations process led to significant adjustments in the financial statements. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective accounts payable reconciliations process. Such process is essential in enabling companies to prevent and detect errors on a timely basis. This effective process helps ensure that all accounts payable reconciliations are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
Lack of controls over the accounts payable ERP module and accounts payable reconciliations has made it difficult for the Government to establish its accounts payable subledger. Management establishes its accounts payable subledger through a manually intensive process. This resulted in significant adjustments to the financial statements.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, supervisory review of the accounts payable reconciliation process was not effective in all instances.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-07 (continued)

Effect
The lack of supervisory review led to significant adjustments in the Government's financial statements. This resulted in a material misstatement of the financial statements.

Recommendation
The Government's management should be more closely involved in the monitoring and review of the financial statement close process. Management should consider performing this process on a quarterly basis in order to detect and correct errors on at timely basis, while enhancing the Government's knowledge over its financial condition. In addition, Management should consider establishing procedures to reduce manual efforts by utilizing its ERP Accounts Payable module more effectively.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-08

Topic
The Government's lack of control over its liability estimation process for its landfill closure and post-closure liability, retroactive wages liability, and accrued compensated absences led to an error in the financial statements, which could not be quantified by management. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective liability estimation/calculation process. Such process is essential in enabling organization to prevent and detect errors on a timely basis. This effective process helps ensure that all liability transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
The Government was not able to validate its estimate for its liability for landfill closure and post-closure, which resulted in a qualification of opinion of the governmental activities in the Government's basic financial statements.

In addition, the accrued compensated absences and the retroactive wages subledgers contained significant errors, which were not quantifiable by Management, and hence led to a qualification in the audit opinion of the governmental activities.

Questioned Costs
Not applicable.

Underlying Cause
Supervisory review of the liability estimation process was not in place. As a result, supporting documentation for estimates and calculation was not available or were not accurate to support Management's assertions.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-08 (continued)

Effect
The Government was not able to support its estimate/calculation for these liabilities, which resulted in a qualification in the audit opinion of the governmental activities in the Government's basic financial statements.

Recommendation
The Government's management should establish controls over the review of this estimation and calculation processes and establishes necessary procedures to document support for assumptions used in estimating the liability and to support the accurate calculation of liabilities.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-09

Topic
Performance and review of the bank reconciliation process has not been timely.

Category
Internal Control

Criteria
Performance and review of bank reconciliations should be performed within a period of 30 to 45 days after month-end.

Condition Found
During our audit, we noted that bank reconciliations were not being performed and reviewed within a reasonable period. Most bank reconciliations were completed, reviewed and approved after 365 days.

Questioned Costs
Not applicable.

Underlying Cause
The Government has numerous bank accounts and its process for performing bank reconciliations is, for the most part, performed manually.

Effect
The lack of timely performance and review of bank reconciliations had led to adjustments not being identified on a timely basis. This could also result in a misstatement due to error or fraud going undetected. In addition, this has prevented the Government from performing monthly closing procedures, which is necessary for timely financial reporting.

Recommendation
The Government should automate its bank reconciliation process and consolidate unnecessary bank accounts. This will allow for the Government's personnel to be more efficient and effective in detecting errors and provide the Government more timely and accurate financial information.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-09 (continued)

Management's Response
The Government concurs with the auditor's findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-10

Topic
The Government's lack of control over its liability estimation process for medical malpractice claims led to an error in the financial statements, which could not be quantified by management. Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
A fundamental element of a sound system of internal controls is an effective liability estimation process. Such process is essential in enabling companies to prevent and detect errors on a timely basis. This effective process helps ensure that all liability estimation transactions are properly recorded, appropriately supported, and subjected to supervisory review.

Condition Found
The Government did not establish a liability for medical malpractice claims, which resulted in a disclaimer of opinion of the business-type activities and the aggregate remaining fund information.

Questioned Costs
Not applicable.

Underlying Cause
The Government's financial statements have grown in complexity. Additionally, a supervisory review of the liability estimation process for worker's compensation claims was in place for fiscal year 2008.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-10 (continued)

Effect
The Government was not able to quantify this liability, which resulted in a disclaimer in the audit opinion of the business-type activities and aggregate remaining fund information.

Recommendation
The Government's management should establish controls over the review its claims data process which will allow them to provide the data necessary in the estimation of this liability.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Part II - Financial Statements Findings Section (continued)

Finding Number: 09-11

Topic
Errors were identified in the Schedule of Expenditures of Federal Awards (SEFA). Due to the nature and magnitude of this control deficiency, such control deficiency is considered to be a material weakness.

Category
Internal Control

Criteria
Recipients of Federal awards are to maintain adequate controls over their books and records in order to prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (OMB Circular A-133, Section .300(d)).

Condition Found
The Schedule of Expenditures of Federal Awards (SEFA) is to provide total Federal awards expended for each individual Federal program. Errors were identified in the preparation of the September 30, 2009 SEFA.

As part of our compliance testing, items were identified that were not properly recorded in the September 30, 2009 SEFA according to the definition of expenditures per OMB Circular A-133. The September 30, 2009 SEFA was not corrected until auditors brought the errors to the attention of management. The September 30, 2009 SEFA did not reflect expenditures of approximately $30,600,000. In addition, approximately $38,400,000 in expenditures incurred during prior fiscal years had not been reported on the SEFA in those respective years. Differences identified between 2009 expenditures reported in the SEFA and actual expenditures per the accounting records were as follows:

Part II - Financial Statements Findings Section (continued)

Finding No. 09-11 (continued)

Condition Found (continued)

CFDA Number	Program Title	Expenditures per Original SEFA	Expenditures per Corrected SEFA	Difference
17.225	Unemployment Insurance	$ 21,696,514	$ 34,045,843	$ (12,349,329)
20.205	Highway Planning and Construction - Fiscal Year 2009	5,458,970	23,703,799	(18,244,829)
		$ 27,155,484	**$ 57,749,642**	**$(30,594,158)**

Expenditures not previously reported pertain to CFDA No. 20.205 and were incurred as follows:

Fiscal Year	Amount
2004	$ 6,072,239
2005	2,297,253
2006	4,204,328
2007	4,010,161
2008	21,813,327

Questioned Costs
Not applicable.

Underlying Cause
Inadequate internal controls over financial reporting and lack of reconciliation between Federal grant expenditures recorded in the Government's Federal program records with the amounts accounted for in its accounting system resulted in errors in the preparation of the SEFA.

Part II - Financial Statements Findings Section (continued)

Finding No. 09-11 (continued)

Effect
The September 30, 2009 SEFA was understated by approximately $30,600,000. Expenditures reported in prior years SEFA were also understated by approximately $38,400,000. The Government corrected its SEFA to reflect 2009 expenditures previously unreported 2004-2008 expenditures remain unreported.

Recommendation
The Government should implement additional procedures and internal controls to ensure its Schedule of Expenditures of Federal Awards is prepared properly to include all Federal expenditures applicable to the reporting period. The Government should ensure proper reconciliation between its accounting system and Federal expenditures at the program level is timely performed and discrepancies are investigated.

Management's Response
The Government concurs with the auditor's findings and recommendations.

Part III - Federal Awards Findings and Questioned Costs Section

This section identifies the audit findings required to be reported by OMB Circular A-133, Section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving Federal awards that are material to a major program.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Agriculture

SNAP Cluster
CFDA Nos. 10.551 and 10.561

The objective of the SNAP Program is to help low-income households buy the food they need for good health.

Total SNAP Cluster Federal expenditures for the fiscal year ended September 30, 2009 amounted to $38,315,224.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-12

Program
U.S. Department of Agriculture – SNAP Cluster – CFDA Nos. 10.551 and 10.561

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the Cash Management Improvement Act (CMIA) Treasury-State Agreement in effect for fiscal year 2009, between the Territory of the Virgin Islands (the Territory) and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing on cash management procedures to verify that the timing of cash drawdowns were made as close to the date costs are actually paid as is administratively feasible, we noted that 1 drawdown did not comply with the clearance pattern established on the Treasury-State Agreement. Our sample consisted of 2 drawdowns from a total population of 16 cash draws during the Government's fiscal year. The following table shows the exception noted during our testing:

No.	Federal Grant ID	Drawdown Amount	Drawdown Type	Funds Released	Drawdown Settlement Date	Days Between Release & Deposit	Approx. Excess Days
1	2009IS251441	$1,060,859	Payroll	Various	5/22/11	Various	Various

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-12 (Continued)

Condition Found (continued)
In addition, we noted that there were only sixteen (16) cash drawdowns related to payroll expenses, when there are 26 pay periods throughout the fiscal year. As per the CMIA agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Thus, we noted that the Government accumulated several pay periods per cash draw request, instead of requesting the cash for every pay period, to comply with the CMIA agreement average clearance pattern. While this situation did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdowns requirements.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement to minimize the timing between the time funds are released and the transfers are made are not operating effectively.

Effect
Delays in transferring Federal funds to cover program outlays into the Government's cash accounts could affect cash flow demands and may cause program activities to be funded by other programs' funds or the Government's general operating funds.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Government concurs with the auditor's findings and recommendation. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Agriculture
Child Nutrition Cluster
(CFDA Nos. 10.555 and 10.559)

The objectives of the Child Nutrition Cluster programs are to: (1) assist States in administering food services that provide healthful, nutritious meals to eligible children in public and non-profit private schools, residential child care institutions, and summer recreation programs; and (2) encourage the domestic consumption of nutritious agricultural commodities.

Total Child Nutrition Cluster Federal expenditures for the fiscal year ended September 30, 2009 amounted to $8,950,689.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-13

Program
U.S. Department of Agriculture – Child Nutrition Cluster (CNC) - CFDA Nos. 10.555 and 10.559

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the CMIA in effect for fiscal year 2009, between the Territory and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing of cash management procedures to verify that cash drawdowns were made as close as is administratively feasible in accordance with the CMIA Treasury-State Agreement, we noted that 10 drawdowns tested exceeded the time required by the CMIA between the time payments were released and the transfers were made. Our sample consisted of 11 drawdowns from a total population of 54 cash draws from the ASAP account code 2009IN109941, totaling $6,077,225. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-13 (Continued)

Condition Found (continued)

#	Federal Grant ID	SOR #	Amount Requested	Drawdown Type	Date Deposited *(Settlement Date)*	Payment Release Date	Days Between Release and Deposit	Approximately Excess Days
1	2009IN109941	AD950	$ 15,000	Non-Payroll	10/23/2009	10/1/2009	22	18
2	2009IN109941	AD952	1,575	Non-Payroll	11/24/2009	10/20/2009	35	31
3	2009IN109941	AD912	457,796	Payroll	6/26/2009	4/23/2009	64	64
4	2009IN109941	AD922	2,047	Non-Payroll	7/13/2009	6/19/2009	24	20
5	2009IN109941	AD930	83,036	Payroll	8/12/2009	7/16/2009	27	27
6	2009IN109941	AD944	321	Non-Payroll	9/29/2009	8/26/2009	34	30
7	2009IN109941	AD954	174,905	Payroll	11/24/2009	9/10/2009	75	75
8	2009IN109941	AD953	265,976	Payroll	11/24/2009	9/10/2009	75	75
9	2009IN109941	AD958	20,391	Non-Payroll	11/25/2009	10/5/2009	51	47
10	2009IN109941	AD968	75,948	Non-Payroll	12/21/2009	12/1/2009	20	16

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds to minimize the timing between the time funds are released and the transfers are made are not operating effectively.

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Government's cash accounts could affect cash flow demands and may cause other programs' funds to fund the CNC activities.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-13 (Continued)

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-14

Program
U.S. Department of Agriculture – Child Nutrition Cluster (CNC) - CFDA Nos. 10.555 and 10.559

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 7 CFR 210.5, each state agency recipient of funds shall limit requests for funds to such times and amounts as will permit prompt payment of claims or authorized advances. Also, each state agency shall maintain records as necessary to support the reimbursement payment made to school food authorities and the report submitted to the Food and Nutrition Service of the U.S. Department of Agriculture (FNS).

In addition, pursuant 7 CFR 3016.20, "Standards for financial management systems", Section (a)-A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-14 (continued)

Condition Found

During our testing to determine whether the Financial Status Report (SF-269) include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with the program requirements, we noted that the expenditure transaction details did not reconcile by $56,217 (Comparison A) to the amounts reported in the Financial Status Report for the period ended September 30, 2009. Furthermore, when comparing the outlays in the Financial Status Report to the expenditure accounts corresponding to the grants in the

Government's financial accounting system (also known as ERP), we found a difference of $606,789 (Comparison B). Moreover, we compared outlays from the Program's Financial Status Report for the period ended September 30, 2009, to the cash draws made to the grant in ASAP, and noted a difference of approximately $100,830 (Comparison C) between outlays and cash draws, as follows:

	Comparison A	Comparison B	Comparison C
Financial Status Report	$ 5,953,245 [(a)]	$ 5,953,245 [(a)]	$5,953,245 [(a)]
Less: Expenditure transaction details	6,009,462 [(b)]	–	–
Less: Expenditures per ERP	–	6,560,034 [(c)]	–
Less: Cash draws per ASAP	–	–	5,852,415 [(d)]
Differences not reconciled	$ 56,217	$ 606,789	$ 100,830

Explanatory notes:

(a) Per the sum of columns 6, 7, and 13 to 15, of line g "Total Federal share of outlays" of the Financial Status Report ("FSR") (Standard Form-269).
(b) Transaction details attached to the FSRs.
(c) Sum of expenditure accounts of activity codes 40200 & 43700.
(d) Cash draw-downs on ASAP account code BG99256107.

Questioned Costs

Not applicable.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-14 (continued)

Underlying Cause
Internal controls to ensure complete and accurate reporting in between the Government's accounting records and Federal financial reports are not operating effectively.

Effect
The Government may have drawn less Federal funds than it was entitled to. Alternatively, the Government may receive funding for unallowable costs if the cash draws were higher than actual expenditures/meals served. The Program may be reporting unallowable costs as Federal expenditures. This may also lead to incorrect financial information presented in reports submitted to the Federal government.

Recommendation
The Government should ensure that effective internal controls are put in place to ensure reports are complete, accurate, reconciled to the accounting records, and supported, as required.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Agriculture

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) CFDA No. 10.557

The objective of the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is to provide supplemental nutritious foods, nutrition education, and referrals to health care for low-income persons during critical periods of growth and development. Such persons include pregnant women, breast-feeding women up to one year postpartum, non-breast-feeding women up to six months postpartum, infants (persons under one year of age), and children under age five determined to be at nutritional risk. Intervention during the prenatal period improves fetal development and reduces the incidence of low birth weight, short gestation, and anemia.

Total WIC Federal expenditures for the fiscal year ended September 30, 2009 amounted to $9,036,992.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-15

Program
U.S. Department of Agriculture – WIC Program – CFDA No. 10.557

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
Pursuant to 7 CFR 3016.20(b)(1), accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with financial reporting requirements of the grant.

Condition Found
During our testing to determine whether the WIC financial management and participation reports (FNS-798) include all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with the program requirements, we noted several reconciliation differences between the Government's ERP and the report. However, the program management provided supporting documents for the amounts reported in the FNS-798. The table below presents the differences noted between the ERP and the FNS-798:

	NSA Cost	Food Cost	Total
FNS-798	$ 1,848,571 [a]	$ 5,880,323 [c]	$ 7,728,894
Less: Expenditures per ERP	953,932 [b]	–	953,932
Differences not reconciled	$ 894,639	$ 5,880,323	$ 6,774,962

Explanatory notes:
(a) FNS-798, line 28, *"Annual Net Federal Cost-NSA"*.
(b) Sum of expenditure accounts of project code F9170 for fiscal year 2009.
(c) FNS-798, line 14, *"Annual Net Federal Cost-Food"*.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-15 (continued)

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to ensure complete and accurate reporting in between the Government's accounting records and Federal financial reports are not operating effectively.

Effect
Inadequate internal controls related to reporting may lead to inaccurate financial information presented in reports submitted to the Federal government.

Recommendation
The Government should determine that effective internal controls are put in place to ensure reports are complete, accurate, and supported, as required.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-16

Program
U.S. Department of Agriculture – WIC Program – CFDA No. 10.557

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the CMIA in effect for fiscal year 2009, between the Territory of the Virgin Islands (the Territory) and the U.S. Secretary of the Treasury, the Territory is required to use an “average clearance” funding technique for vendor and payroll related costs. Under the “average clearance” funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government’s bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing on cash management procedures to verify the timing of cash drawdowns were made in compliance with the Treasury-State Agreement, we noted that 2 drawdowns did not comply with the clearance dates established in the Treasury-State Agreement. Our sample consisted of 2 drawdowns from a total population of 12 cash draws of administrative expenses during the Government’s fiscal year. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-16 (continued)

Condition Found (continued)

No.	Federal Grant ID	Drawdown Amount	Drawdown Type	Funds Released	Required Deposit	Actual Deposit Date	Excess Days
1	2009IW100641	$ 41,843	NSA-Payroll	6/6/09	6/6/09	6/18/09	12 days
2	2009IW100641	$ 41,843	NSA-Payroll	7/4/09	7/4/09	7/16/09	12 days

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement to minimize the timing between the time funds are released and the transfers are made are not operating effectively.

Effect
Delays in transferring Federal funds to cover program outlays into the Government's cash accounts could affect cash flow demands and may cause program activities to be funded by other programs' funds or the Government's operating funds.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-17

Program
U.S. Department of Agriculture – Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) – CFDA No. 10.557

Category
Internal Control / Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
OMB Circular A-102 requires that equipment be used in the Program for which it was acquired or, when appropriate, other Federal programs. Equipment records shall be maintained, a physical inventory of equipment shall be taken at least once every two years and reconciled to the equipment records, an appropriate control system shall be used to safeguard equipment, and equipment shall be adequately maintained.

Condition Found
Although the Program keeps an inventory listing of equipment purchased with Federal funds, we were unable to obtain an official listing from Government's property management records to corroborate equipment tags. In addition, there was no evidence of the performance of a physical inventory performed in the past two years as of September 30, 2009. However, the Government provided us evidence of a physical inventory performed in October 2009.

Questioned Costs
Not applicable.

Underlying Cause
It appears that the management did not follow procedures to ensure a physical inventory of equipment is performed every two years. Furthermore, appropriate procedures to maintain the Government's property management records are being updated not operating effectively.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-17 (continued)

Effect
Inappropriate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations, including return of funding to the grantor agency.

Recommendation
The V.I. WIC Program should perform a physical inventory of equipment purchased with Federal funds and reconcile it with the Government's official property management records. Also, equipment purchased with Federal funds should be appropriately tagged and identified.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Defense
The Office of the Adjutant General

National Guard Military Operations and Maintenance (O&M) Projects
CFDA No. 12.401

The National Guard Bureau (NGB) enters into cooperative agreements (CA) for Army National Guard (ARNG) Facilities Programs (EP) and Air National Guard (ANG) Facility Operations & Maintenance Activities (FOMA) with States to provide Federal support for services provided by the State Military Departments for authorized facilities for leases, facilities operations, and sustainment, restoration, an modernization, including operations and maintenance (O&M) and minor construction costs (NGR 5-1/ANGI 63-101).

Total National Guard Military Operations and Maintenance (O&M) Projects Federal expenditures for the fiscal year ended September 30, 2009, amounted to $4,647,180.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-18

Program
Department of Defense – National Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401

Category
Internal Control / Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
Pursuant to 32 CFR section 33.32(d) (1) and (2); Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.

Condition Found
(1) 335 out of 335 inventory items did not contain an acquisition date, cost and/or the percentage of Federal participation in the cost. (2) 99 out of 335 inventory items did not have a serial number or other identification number, (3) 50 out of 335 instances inventory items did not appear to meet the criteria for the State's policy of capitalizing equipment, where the assessed cost is greater than $1,000 (this assessment was based on the item description; i.e., surge protector, two hole punch, calculator, etc.) (4) 1 out of 335 instances where the item was listed as missing and no formal plan to record a disposition had taken place.

In addition, as specified in the Master Cooperative Agreement at Article X- Property Section 1001 Subsection b. "The State will submit an annual inventory report". The Grant Director was unable to provide such documentation.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-18 (continued)

Condition Found (continued)
It was also noted that two additional expenditure items were machinery and equipment related (air conditioning units and a truck) but were improperly recorded as capital outlay.

Questioned Costs
Could not be determined.

Underlying Cause
The Office of Adjutant General did not follow procedures in place to maintain appropriate records for acquisition and control of property acquired with Federal funds.

Effect
Inappropriate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal Regulations.

Recommendation
The Office of Adjutant General should perform a physical inventory of equipment purchased with Federal funds and include unrecorded assets with V.I. Property and Procurement Office. In addition, expenditures should be reviewed to ensure they are properly recorded in the correct general ledger classification.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-19

Program
Department of Defense – National Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401

Category
Internal Control / Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking

Criteria
National Guard Regulation 5-1, National Guard Grants and Cooperative Agreements, provides regulatory guidance on the execution of Master Cooperative Agreements for Operation and Maintenance Projects. Specifically, Chapter 13 provides guidance for the operation and maintenance of Army National Guard facilities. The Facilities Inventory and Support Plan (FISP) outlines percentages of Federal and state support by type of facility and/or function, to include multi-use functions. Expenditures charged to a given facility are to be allocated across Federal and state projects/support levels on a transaction by transaction basis.

Condition Found
The Office of Adjutant General was unable to provide the Facilities Inventory and Support Plan for the allocation of costs amongst the facilities. Therefore, we were unable to test compliance with matching requirements.

Questioned Costs
Could not be determined.

Underlying Cause
Current internal controls for the National Guard Program are not operating effectively with regard to providing for the proper maintenance of accounting records.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-19 (continued)

Effect
The Program could have received reimbursement for unallowable or unsupported costs, or might be in noncompliance with matching requirements which could result in unallowed expenditures.

Recommendation
The National Guard Program should implement procedures to maintain supporting documentation to evidence its compliance with matching requirements. In addition, the Program should implement sessions in training appropriate individuals for the preparation and review of the matching requirements.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-20

Program
Department of Defense – National Guard Military Operations and Maintenance (O&M) Projects – CFDA No. 12.401

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
29 CFR 97.20(B)(6) requires that internal controls be maintained to ensure that Federal transactions are properly recorded and accounted for in the recipient's books and records so as to enable the Government to prepare reliable Federal reports. Section 106- ARNG Payments Processing subsection b. Reimbursement Method states, "The SF-270 and documentation will be reviewed, reconciled, approved by the Cooperative Agreement Project Manager (CAPM). The CAPM will sign on block 13 of the SF-270 and forward to the USPFO for payment processing."

Condition Found
We noted that in 10 out of 26 transactions selected for testing, the SF-270 form was not properly prepared in respect to the Total Program Outlays to Date and the Federal Payments Previously Requested. In this instance, the Total Program Outlays to Date should agree to the client's expenditures detail as of the date of the SF-270 report, and the Federal Payments Previously Requested should agree to the SF-270 Form submitted immediately prior.

In addition we noted that the SF-270 was prepared by the Director of OTAG, based on information provided by the Staff Accountant. We noted that the Director of OTAG signed off on 4 out of 25 SF-270s reviewed, although she is not an authorized signer on the SF-270 Reimbursement Request Form.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-20 (continued)

Questioned Costs
Could not be determined.

Underlying Cause
Policies are not in place to ensure the accuracy of information included in the required reports and that an authorized signer is reviewing and approving the SF-270 prior to submission for reimbursement.

Effect
The lack of timely reconciliation of supporting records with amounts reported in SF-270 Reimbursement Request Form, may lead to incorrectly recorded transactions not being promptly detected and corrected, and may also lead to incorrect financial information presented in reports submitted to the Federal government and claims for reimbursement.

Recommendation
Office of the Adjutant General should provide key personnel involved in the National Guard reporting with updated information on reporting requirements to ensure future compliance. Also, the Office of the Adjutant General should establish and maintain efficient records retention and tracking systems for reference as to whether it is meeting its reporting compliance requirements.

Management's Response
The Office of the Adjutant General (OTAG) does not concur with this finding. OTAG was not provided detail information concerning expenditure variances for program verification purposes. Also the Federal Government made the change to have the Program Managers sign the SF 270 in late February or early March 2009; therefore, the few SF270 forms that were signed by the Director of Administrative Services were at that time legitimate. Also, the Director of Administrative Services has not been preparing the SF270 forms from April 2006 to present.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-20 (continued)

Auditor's Conclusion
Management response does not address errors in the report as cited in first paragraph of the Condition Found section.

In addition, evidence supporting Management Response was not provided during the performance of our audit.

Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Labor

Unemployment Insurance
CFDA No. 17.225

The regular Unemployment Insurance (UI) Program, also referred to as Unemployment Compensation (UC), Unemployment Compensation for Federal Employees (UCFE), and Unemployment Compensation for Ex-Service Members (UCX) programs, provide benefits to unemployed workers for periods of involuntary unemployment and help stabilize the economy by maintaining the spending power of workers while they are between jobs. UC programs cover almost all wage and salaried workers. During periods of high unemployment, the Extended Benefits (EB) program pays EB for an additional (or extended) period of time to eligible unemployed workers who have exhausted their entitlement to UC, UCFE, or UCX.

Total Unemployment Insurance expenditures for the fiscal year ended September 30, 2009 amounted to $34,045,843.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-21

Program
U.S. Department of Labor – Unemployment Insurance – CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Eligibility

Criteria
In accordance with 20 CFR Part 602 Appendix A Standard for Claim Determinations – Separation Information Section 6014 Separation Information Requirements Designed to Meet Department of Labor Criteria, where workers are separated, employers are required to furnish the agency promptly, either upon agency request or upon such separation, a notice describing the reasons for and the circumstances of the separation and any additional information which might affect a claimant's right to benefits.

Condition Found
In order to determine whether required eligibility determinations were made, (including obtaining any required documentation/verifications), that individual program participants were determined to be eligible, and that only eligible individuals participated in the program, we performed an Eligibility Internal Control and Compliance tests. As part of the attributes tested, we reviewed that a Separation of Work Form completed and signed by the employer was included in the claimant's file to ascertain that the claimant was involuntarily separated from suitable work and eligible to receive unemployment compensation. We selected 65 checks paid, 25 for our control test and 40 for our compliance test, out of a total population of 77,799 checks paid totaling $18,589,404, for fiscal year 2009. As a result, we noted that five of the claimants' files tested in our control test and four claimants' files tested in our compliance test did not include a completed Separation of Work Form signed by the employer. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-21 (continued)

Condition Found (continued)

Test Type	Region	SSN	Benefit Year Begin	Benefit Year End
Control	STT	XXX-XX-5111	8/31/2008	8/29/2009
Control	STT	XXX-XX-3716	11/30/2008	11/28/2009
Control	STX	XXX-XX-0595	10/19/2008	10/17/2009
Control	STX	XXX-XX-2966	12/21/2008	12/19/2009
Control	STX	XXX-XX-3578	2/22/2009	2/20/2010
Compliance	STT	XXX-XX-2937	9/14/2008	9/12/2009
Compliance	STT	XXX-XX-7167	12/14/2008	11/29/2008
Compliance	STT	XXX-XX-8952	12/21/2008	12/19/2009
Compliance	STT	XXX-XX-5437	1/11/2009	1/9/2010

Questioned Costs
We have determined known questioned costs to be $30,479, which represents the dollar amount of the fiscal year 2009 total benefit paid for each of the nine claimants above.

Underlying Cause
The Government does not have appropriate controls in place to ensure that the Statement of Separation, completed and signed by the employer, is included in each claimant's file.

Effect
The Government may have awarded Federal funds to an individual who is not eligible to receive unemployment compensation.

Recommendation
The Government should establish appropriate controls to validate that the claimants were involuntarily separated from suitable work and ascertain that they are eligible to receive benefit payments by including the Statement of Separation, completed and signed by the employer, in each of the claimant's file.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-21 (continued)

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-22

Program
U.S. Department of Labor – Unemployment Insurance – CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Eligibility

Criteria
In accordance with 29 CFR Part 96 Audit Requirements for Grants, Contracts, and Other Agreements Section 96.41 Access to records, the Secretary of Labor, the DOL Inspector General, the Comptroller General of the United Government, or any of their duly authorized representatives (including certified public accountants under contract), shall have access to any books, documents, papers, and records (manual and automated) of the entity receiving funds from DOL and its subrecipients/subcontractors for the purpose of making surveys, audits, examinations, excerpts, and transcripts.

Condition Found
In order to determine whether required eligibility determinations were made, (including obtaining any required documentation/verifications), that individual program participants were determined to be eligible, and that only eligible individuals participated in the program, we performed an Eligibility Internal Control and Compliance tests. As part of our tests, we selected 65 items, 25 for our control test and 40 for our compliance test, out of an entire population of 77,799 checks paid totaling $18,589,404, for fiscal year 2009. The Government was unable to provide 12 claimants' files, two from our Control test sample and 10 from our Compliance test sample. Consequently, we could not ascertain if these claimants were eligible to receive unemployment compensation. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-22 (continued)

Condition Found (continued)

Test Type	Region	SSN
Control	STX	XXX-XX-7484
Control	STX	XXX-XX-1474
Compliance	STX	XXX-XX-0950
Compliance	STX	XXX-XX-2765
Compliance	STX	XXX-XX-3939
Compliance	STX	XXX-XX-8260
Compliance	STX	XXX-XX-0341
Compliance	STX	XXX-XX-5203
Compliance	STX	XXX-XX-6131
Compliance	STX	XXX-XX-0943
Compliance	STX	XXX-XX-9558
Compliance	STX	XXX-XX-4471

Questioned Costs
We have determined known questioned costs to be $71,255, which represents the dollar amount of the fiscal year 2009 total benefit paid for each of the 12 claimants.

Underlying Cause
The Government does not have appropriate controls in place to safeguard the claimants' files; therefore, the Government was unable to provide us the supporting documentation of our selection in order to support eligibility.

Effect
The Government may have awarded Federal funds to an individual who is not eligible to receive unemployment compensation.

Recommendation
The Government should implement procedures to ensure that all claimants' files are properly maintained and available.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-22 (continued)

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-23

Program
U.S. Department of Labor – Unemployment Insurance – CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions: Match with IRS 940 FUTA Tax Form

Criteria
In accordance with 26 CFR section 31.3302(a)-1 Credit against tax for contributions paid, the taxpayer may credit against the tax for any taxable year the total amount of contributions paid by him into an unemployment fund maintained during such year under a State law which has been found by the Secretary of Labor to contain the provisions specified in section 3304(a); provided, however, that no credit may be taken for contributions under a State law if such State has not been duly certified for the calendar year to the Secretary of the Treasury by the Secretary of Labor. The contributions may be credited against the tax whether or not they are paid with respect to employment as defined in section 3306(c).

Condition Found
In order to determine whether the Government properly performed the match to support its certification of State FUTA tax credits, we performed a Compliance test. As part of our test, we selected 40 checks out of an entire population of 2,316 checks received totaling $1,041,880, for fiscal year 2009. The Government was not able to evidence the procedures performed in order to match the employer tax payments with the credit claimed for these payments on the employer's IRS 940 FUTA tax form. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-23 (continued)

Condition Found (continued)

Employer FEIN	Employer FEIN	Employer FEIN	Employer FEIN
17094	15767	17134	17098
16777	17063	17368	17321
16288	16660	16742	17297
17092	17188	16855	17061
16681	17095	16832	16883
16805	16560	17030	16461
16618	16485	16483	17218
17243	16577	17338	17278
16367	16750	16550	13532
16221	17021	16939	11926

Questioned Costs
Not applicable.

Underlying Cause
The Government does not maintain adequate controls to ensure that the required match of employer tax payments with credits claimed for these payments on the employer's IRS 940 FUTA tax form.

Effect
The lack of internal controls to ensure these procedures are performed may lead to noncompliance with Program requirements.

Recommendation
The Government should establish appropriate controls to ensure that the required match with IRS 940 FUTA tax forms is performed and reviewed as appropriate.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-23 (continued)

Management's Response
The VI Department of Labor (VIDOL) does not concur with this finding. VIDOL received an SDT file from the IRS via a Secure Data Transfer System. This file contains employer records for which the IRS is requesting UI tax payment certifications. The file is downloaded to VIDOLA$ database and a cross match is done to produce a FUTA certification file that is transmitted to the IRS via the same file transfer system- SDT. On Monday May 16, 2011 DOL transmitted to the IRS via SDT the FUTA certification file produced by the cross match process.

Auditor's Conclusion
As stated in our finding, evidence of such procedure was not provided during the time of our audit.

It is also noted that the Government's response indicating a file was compiled and sent during May 2011, reinforces the lack of internal control and compliance during fiscal year 2009.

Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-24

Program
U.S. Department of Labor – Unemployment Insurance – CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions: Unemployment Insurance (UI) Benefits Payment

Criteria
As required by 20 CFR section 602.11(d), to satisfy the requirements of sections 303(a) (1) and (6), a State law must contain a provision requiring, or which is construed to require, the establishment and maintenance of a Quality Control (QC), specifically a Benefits Accuracy Measurement (BAM) program in accordance with OMB Circular A-133 of Part IV. The establishment and maintenance of such a QC program in accordance with OMB Circular A-133 of Part IV shall not require any change in State law concerning authority to undertake redeterminations of claims or liabilities or the finality of any determination, redetermination or decision.

Condition Found
Per inquiry to the Program management, we learned that the local UI Program does not have a BAM program implemented as required by 20 CFR Section 602.11(d), in order to assess the accuracy of UI benefit payments and denied claims.

Questioned Costs
Not applicable.

Underlying Cause
The Government does not maintain adequate controls to ensure that a QC program, specifically a BAM program is designed and implemented as required by 20 CFR Section 602.11(d).

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-24 (continued)

Effect
The lack of internal controls to ensure these procedures are performed may lead to noncompliance with Program requirements, such as: the Government may have awarded Federal funds to an individual who is not eligible to receive unemployment compensation, or have not awarded Federal funds to an individual who is eligible to receive unemployment compensation.

Recommendation
Appropriate internal controls are needed to ensure that a BAM program is implemented in order to assess the accuracy of UI benefit payments and denied claims.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Finding Number: 09-25

Program
U.S. Department of Labor – Unemployment Insurance – CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
In accordance with 29 CFR 97.20(B)(6), internal controls should be maintained to ensure that Federal transactions are properly recorded and accounted for in the recipient's books and records so as to enable to prepare reliable Federal reports.

Condition Found
In order to determine whether required reports for Federal awards include all activity of the reporting period are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements, we tested the following attribute: traced amounts reported to the accounting records in order to verify the accuracy and completeness of the reports. As a result of our testing, we noted a difference in the ETA 2112 UI Financial Transaction Summary Fiscal Year 2009 Reports when tracing the amounts reported to the accounting records, VIDOLAS System, regarding the Contribution Payments Received and the Benefit Payments, as follows:

	Contribution Payments Received		**Benefits Disbursements**	
ETA 2112	$ 973,973	(a)	$ 30,010,556	(b)
Program records[c]	1,041,880		29,903,692	
Differences not reconciled	$ 67,907		$ 106,864	

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-25 (continued)

Condition Found (continued)
Explanatory notes:
(a) Per Line 11, Net UI Contributions, Column C, Net Totals, of ETA 2112.
(b) Sum of Line 31 Net UI Benefits and Line 39 EUC08 Activity of Column F Net Totals of ETA 2112.
(c) Program records from VIDOLAS System.

Furthermore, the Government did not perform a reconciliation of its accounting records with amounts reported. Timely reconciliations are necessary to ensure accurate reporting to the U.S. DOL.

Questioned Costs
We have determined known questioned costs to be $174,771, which represent the sum of the differences of the receipts and the disbursements.

Underlying Cause
It appears that effective internal controls are not in place to ensure that the program activity from the Government's accounting system records agrees to the amounts reported to the Federal Government.

Effect
The lack of effective internal controls in reporting ETA 2112, may lead to inaccurate reporting and disallowance of funding.

Recommendation
The Government should implement internal controls to ensure reports submitted to the Federal Government are accurate and complete. These controls may include reconciliations between Program accounting records and Federal reports.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-26

Program
U.S. Department of Labor – Unemployment Insurance – CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
29 CFR 97.20(B)(6) requires that internal controls be maintained to ensure that Federal transactions are properly recorded and accounted for in the recipient's books and records so as to enable to prepare reliable Federal reports.

Condition Found
In order to determine whether required reports for Federal awards include all activity of the reporting period, are supported by applicable accounting or performance records, and are fairly presented in accordance with program requirements, we tested the following attribute: traced amounts reported to the accounting records in order to verify the accuracy and completeness of the reports. As a result of our testing, we noted a difference in the Fiscal Year 2009 ETA 9130 U.S. DOL ETA Financial Reports when tracing the amounts reported to the accounting records, ERP System, regarding the fiscal year 2009 Federal expenditures, as follows:

Project Code	Financial Report ETA9130	ERP System	Differences not reconciled
F5122	$ 102,424	$ 102,422	$ 2
F6122	–	650,376	(650,376)
F7122	–	196,110	(196,110)
F8122	419,998	1,227,343	(807,345)
F9122	1,774,261	189,213	1,585,048
Totals	$ 2,296,683 ([a])	$ 2,365,464	$ (68,781)

Explanatory note: (a) Per Line e. Federal Share of Expenditures, Column: This Period, of ETA 9130.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-26 (continued)

Condition Found (continued)
Furthermore, the Government did not perform a reconciliation of its accounting records with amounts reported. Timely reconciliations are necessary to ensure accurate reporting to the U.S. DOL.

Questioned Costs
Not applicable.

Underlying Cause
It appears that effective internal controls are not in place to ensure that the program activity from the Government's accounting system records agrees to the amounts reported to the Federal Government.

Effect
The lack of effective internal controls in reporting ETA 9130, may lead to inaccurate reporting and disallowance of funding.

Recommendation
The Government should implement internal controls to ensure reports submitted to the Federal government are accurate and complete. These controls may include reconciliations between Program accounting records and Federal reports.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-27

Program
U.S. Department of Labor – Unemployment Insurance – CFDA No. 17.225

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the CMIA Treasury-State Agreement in effect for fiscal year 2009, between the Territory and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
In order to determine whether the recipient/subrecipient followed procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and to determine whether States have complied with the terms and conditions of the CMIA Treasury-State Agreement in effect for fiscal year 2009, we selected 10 drawdowns totaling $614,721 out of a total population of 53 drawdowns totaling $1,760,048. Six of the drawdowns tested were not in compliance with the clearing funding patterns stipulated in the CMIA Agreement. The noncompliance relates to drawdowns being requested after the specified date as per CMIA Agreement. While this did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdown requirements. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-27 (continued)

Condition Found (continued)

No.	Federal Grant ID	Cost Center	Drawdown Amount	Drawdown Type	Funds Release Date	Drawdown Settlement Date	Approximate Excess Days
1	UI167780855A78 / UI167781G0	F8122	$ 88,235	Payroll	12/18/08	12/31/08	13
2	UI167780855A78 / UI167781G0	F8122	$ 36,111	Payroll	3/12/09	3/23/09	11
3	UI180520955A78 / UI180525I0	F9122	$ 278,903	Payroll	3/12/09	3/23/09	11
4	UI180520955A78 / UI180525I0	F9122	$ 141,625	Payroll	8/27/09	9/4/09	8
5	UI180520955A78 / UI180525I0	F9122	$ 7,393	Payroll	8/27/09	9/4/09	8
6	UI180520955A78 / UI180525I0	F9122	$ 8,356	Payroll	8/27/09	9/4/09	8

In addition, as per the CMIA agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. For fiscal year 2009, the payroll drawdowns were not identified in the cash drawdows population by management. Therefore, we could not ascertain that they were 26 draws for each of the 26 payroll periods paid during this fiscal year, to comply with the CMIA agreement average clearance pattern.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement, to minimize the timing between the funds released date and the transfers date, are not operating effectively.

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Government's cash accounts could affect cash flow demands and may cause that other programs funds may be funding UI activities and vice versa or the Government's general operating funds may be funding UI activities.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-27 (continued)

Recommendation
The Government should ensure that policies and procedures are in place in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Labor

Workforce Investment Act Cluster
CFDA Nos. 17.258, 17.259, 17.260

The Workforce Investment Act of 1998 (WIA) reforms Federal job training programs and creates a new, comprehensive workforce investment system. The reform system is intended to be customer-focused, to help American access the tools they need to manage their careers through information and high quality services, and to help U.S. companies find skilled workers. The cornerstone of the new workforce investment system is One-Stop service delivery, which unifies numerous trainings, education and employment programs into a simple, customer-friendly system in each community so that the customer has access to seamless system of workforce investment service.

Total Workforce Investment Act Cluster Federal expenditures for the fiscal year ended September 30, 2009, amounted to $3,675,112.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-28

Program
U.S. Department of Labor – Workforce Investment Act Cluster– CFDA Nos. 17.258, 17.259, 17.260

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
29 CFR 97.20(B)(6) requires that internal controls be maintained to ensure that Federal transactions are properly recorded and accounted for in the recipient's books and records so as to enable to prepare reliable Federal reports.

Condition Found
During our testing to determine whether the Financial Status Report includes all activity of the reporting period are supported by applicable accounting records, and are fairly presented in accordance with the program requirements, we noted that the expenditure transaction details did not reconcile by $329,337, to the amounts reported in the Financial Status Report for the period ended September 30, 2009 as shown below. However, the program provided support for all the transactions selected for testing:

PROJECT	PER ERP	PER ETA9130	DIFFERENCE
F9A43	$ 1,620,531	$ 1,219,109	$ 401,422
F8043	493,753	990,984	(497,231)
F7043	1,306,044	1,004,138	301,906
F5043,F5044, F6044,F7044	123,240	–	123,240
	$ 3,543,568	**$ 3,214,231**	**$ 329,337**

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-28 (continued)

Questioned Costs
Not applicable.

Underlying Cause
It appears that effective internal controls are not in place to ensure that the program activity from the Government's accounting system records agrees to the amounts reported to the Federal Government.

Effect
The lack of effective internal controls in reporting ETA 9130, may lead to inaccurate reporting and disallowance of funds.

Recommendation
The Government should implement internal controls to ensure reports submitted to the Federal government are accurate and complete. These controls may include reconciliations between Program accounting records and Federal reports.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-29

Program
U.S. Department of Labor – Workforce Investment Act Cluster– CFDA Nos. 17.258, 17.259, 17.260

Category
Internal Control / Compliance

Compliance Requirement
Eligibility.

Criteria
Pursuant to 29CFR 272.10 to determine eligibility, training services may be made available to employed and unemployed adults and dislocated workers who: (a) Have met the eligibility requirements for intensive services, received at least one intensive service under 20 CFR 663.240, and been determined to be unable to obtain or retain employment through such services and eligible youth participants be disadvantaged low-income youth as defined in 29 USC 2801(25).

Condition Found
During our testing to determine whether the WIA Program is meeting the requirement to accurately and completely process and store all case file information for eligibility determinations, we noted that internal controls related to eligibility determinations were not operating effectively for 10 out of 25 case files selected for testing. In addition, we identified 18 exceptions on 40 selected participants during our compliance testing. The total population consisted of 2,377 active cases. The table below contains the exceptions noted on the participant files selected:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-29 (continued)

Condition Found (continued)

Item #	Participant ID	Islands	Participant Entry Date	Test type	Comment
1	21908	STT	2/20/2009	Internal Control	b,c,d,e
2	31188	STT	10/6/2008	Internal Control	c,d,e
3	32015	STX	8/16/2007	Internal Control	b,c,d,e
4	34490	STT	3/15/2010	Internal Control	b,c,d,e
5	45513	STT	1/28/2009	Internal Control	c,e
6	17545	STX	8/28/2009	Internal Control	b,c,e
7	47670	STX	6/22/2009	Internal Control	c
8	57970	STT	6/25/2009	Internal Control	a
9	61449	STX	9/17/2009	Internal Control	b,c,d
10	51212	STT	8/26/2009	Internal Control	b,d
11	16651	STX	8/6/2007	Compliance	b,c,d,e
12	34946	STT	1/28/2009	Compliance	b,c,d,e
13	36713	STX	6/29/2007	Compliance	b,c,d,e
14	36752	STT	7/2/2007	Compliance	b,c,d,e
15	36888	STT	7/11/2007	Compliance	b,c,d,e
16	44661	STT	5/15/2009	Compliance	b,c,d,e
17	54903	STT	10/2/2009	Compliance	b,c,d,e
18	57103	STT	6/10/2009	Compliance	b,c,d,e
19	57257	STT	2/24/2010	Compliance	b,c,d,e
20	34836	STX	10/14/2008	Compliance	b,c,d,e
21	43278	STX	9/8/2009	Compliance	a
22	25562	STT	2/10/1987	Compliance	a
23	40371	STX	5/8/2009	Compliance	b,c,d
24	49822	STT	10/21/2008	Compliance	b,c,d
25	51691	STX	1/13/2009	Compliance	b,c,d,e
26	46139	STT	2/19/2009	Compliance	b,c,d
27	9289	STT	2/23/2009	Compliance	b,c,d,e
28	8628	STT	4/20/2009	Compliance	b,c,d

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-29 (continued)

Condition Found (continued)
Comments:

a) Participant's file was not available for review.
b) The participant was applying for only job search and did not receive additional services provided by the WIA program.
c) Income verification document was not provided in the participant's file or did not comply with low income living standard.
d) Residence verification document was not provided or was not under the participant's name.
e) Participant's entry date did not agree to the information in AOSOS system.

Questioned Costs
Known questioned costs for certain services were determined to be $9,091.

Underlying Cause
Although current internal controls provide that eligibility documentation should be maintained in the participant's file, the department responsible for the program was unable to locate the supporting documents from the selected participant's file.

Effect
The Government may have provided services to individuals that are not eligible to participate in the program.

Recommendation
The Government should implement procedures to ensure that all participant files are properly maintained and available.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-30

Program
U.S. Department of Labor – Workforce Investment Act Cluster– CFDA Nos. 17.258, 17.259, 17.260

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
Pursuant to 31 CFR 205, Subpart B-Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement, a state must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal program agency must limit a funds transfer to a state to the minimum amounts needed by the state and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a state's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition Found
During our testing of cash management procedures to verify that the timing of cash drawdowns were made as close as possible to the time of making disbursements, we noted that 3 drawdowns out of the 8 selected for testing exceeded a reasonable time between the payments release and the cash drawdown as shown in the table below:

#	Journal #	Total Cashdraw Requested	Draw Amount Tested	Cashdraw Breakdown	Checks #	Payment Release Date	Actual Deposit Date	Days between (Actual - deposit date)
1	4843	$ 4,897.00	$ 1,910.00	Non-payroll	9196629	9/10/08	10/30/08	20 days
2	4844	$ 69,017.00	$ 9,969.00	Payroll	n/a	10/8/08 & 10/22/08	10/30/08	22 days
3	7560	$ 71,893.00	$ 17,780.00	Payroll	n/a	5/7/09 & 5/21/09	6/30/09	54 days

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-30 (continued)

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds, to minimize the timing between the funds are released and the transfers are made, are not operating effectively.

Effect
Delays in transferring Federal funds to cover program cost into the Government's cash accounts could affect cash flow demands and the Government's general operating cash may be used to cover program costs.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the cash management requirement of minimizing the time elapsing between the transfer of funds from the U.S. Treasury and actual disbursements.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Transportation

Highway Planning and Construction
CFDA No. 20.205

The objectives of the Highway Planning and Construction (HPC) Program are to: (1) assist States in the planning and development of an integrated, interconnected transportation system important to interstate commerce and travel by constructing and rehabilitating the National Highway System (NHS), including Interstate highways and most other public roads; (2) provide aid for the repair of Federal-aid highways following disasters; (3) foster safe highway design, and replace or rehabilitate structurally deficient or functionally obsolete bridges; and (4) to provide for other special purposes.

Total HPC Federal expenditures for the fiscal year ended September 30, 2009, amounted to $23,746,131.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-31

Program
U.S. Department of Transportation – Highway Planning and Construction – CFDA No. 20.205

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205, when entities are funded on a reimbursement basis, program costs must be paid for by entity funds before reimbursement is requested from the Federal Government. When funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement..

Condition Found
During our test to determine whether the Government paid their project expenditures prior to submitting a request for reimbursement, we noted that in seven instances, Federal funds were requested before the release of the related check to the vendor/employee. In eight other instances, the requests for reimbursement took more than 60 days to be prepared subsequent the check release date. The population of cash disbursements consisted of 377 transactions totaling $5,403,640. Our sample of 25 transactions totaled $2,071,560.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-31 (continued)

Condition Found (continued)

Item#	PO#	Check #	Check Amount	Check Date	Date Funds Requested Per PR-20	Selected Cost Item	Comments
1	1141	9197974	$ 444,568	11/13/2008	11/12/2008	Professional Service Cost	A
2	1130	9197972	$ 322,482	11/13/2008	11/12/2008	Professional Service Cost	A
3	13655	9199771	$ 104,007	3/9/2009	2/10/2009	Professional Service Cost	A
4	28798	9202359	$ 101,049	6/22/2009	6/12/2009	Professional Service Cost	A
5	43300	9204640	$ 100,000	9/18/2009	7/31/2009	Equipment and other Capital Expenditures	A
6	41779	9204625	$ 47,702	9/18/2009	5/20/2009	Transportation Cost	A
7	18903	9200657	$ 47,142	4/16/2009	4/14/2009	Professional Service Cost	A
8	12288	9199445	$ 132,121	2/20/2009	4/21/2009	Relocation Costs	B
9	12284	9199397	$ 47,500	2/20/2009	4/21/2009	Relocation Costs	B
10	18022	5474364	$ 4,231	4/1/2009	6/30/2009	Professional Service Cost	B
11	6048	5469904	$ 4,231	1/12/2009	5/4/2009	Professional Service Cost	B
12	18057	5474372	$ 3,727	4/1/2009	6/30/2009	Professional Service Cost	B
13	7177	5469894	$ 3,727	1/12/2009	5/4/2009	Professional Service Cost	B
14	12712	5472429	$ 3,413	2/20/2009	4/28/2009	Professional Service Cost	B
15	7176	5470344	$ 3,052	1/12/2009	3/23/2009	Professional Service Cost	B

A. Request for reimbursement (PR-20) funds made prior to check release date.

B. Request for reimbursement (PR-20) made more than 60 days after payment.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to ensure all program costs are paid prior to requesting reimbursements and that funds are requested as close as administratively feasible are not operating effectively.

Effect
This condition may affect the Government's cash flows, or require other programs or the Government's general operating cash to cover program costs.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-31 (continued)

Recommendation

The Government should ensure procedures are in place to ensure that all program costs have been paid prior to request reimbursement and funds requested are being made as close to the date such costs are actually paid as administratively feasible.

Management's Response

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-32

Program
U.S. Department of Transportation – Highway Planning and Construction – CFDA No. 20.205

Category
Internal Control / Compliance

Compliance Requirement
Activities Allowed or Unallowed; Allowable Cost/Cost Principles; Reporting

Criteria
Pursuant to 49 CFR 18.20 (1) Financial reporting - Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Accounting records - Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition Found
During our testing to determine that expenditures reported in the Government's financial system included all activity of the reporting period, we noted that $18,287,161 of Federal-aid Highway grant expenditures related to projects managed by Eastern Federal Land Highway Department were not included in the Government's accounting records for fiscal year 2009 and $38,397,307 related to costs incurred in prior periods were omitted from the original SEFA. Furthermore, at the time of our audit procedures, the Government did not have readily available these expenditures for our review.

Questioned Costs
We have determined known questioned costs of approximately $56,700,000. This amount includes approximately $38,400,000 of expenditures pertaining to fiscal years 2004 through 2008, which were not previously reported in the Government's SEFA (see Finding 09-11).

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-32 (continued)

Underlying Cause
Internal controls to ensure that all costs are properly recorded in the Government's accounting system was not effectively designed to capture all program cost.

Effect
This may cause inaccurate financial reporting and disallowance of Federal funds.

Recommendation
The Government should establish procedures to ensure that all program costs are properly captured and recorded in their accounting system.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Education

Special Education – Grants to States (IDEA, Part B)
CFDA No. 84.027

The purposes of the Special Education - Grants to States (IDEA, Part B Program) are to: (1) ensure that all children with disabilities have available to them a free appropriate public education (FAPE) which emphasizes special education and related services designed to meet their unique needs; (2) ensure that the rights of children with disabilities and their parents or guardians are protected; (3) assist States, localities, educational service agencies and Federal agencies to provide for the education of all children with disabilities; and (4) assess and ensure the effectiveness of efforts to educate children with disabilities. The Assistance for Education of All Children with Disabilities Program (Special Education - Grants to States - IDEA, Part B) provides grants to States to assist them in meeting these purposes (20 USC 1400 et seq.).

Total Special Education - Grants to States expenditures for the fiscal year ended September 30, 2009 amounted to $11,777,307.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-33

Program
U.S. Department of Education – Grants to States (IDEA, Part B) – CFDA No.84.027

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the Cash Management Improvement Act (CMIA) Treasury-State Agreement between the Government of the US Virgin Islands (the Government) and the US Department of Treasury in effect during fiscal year 2009, the Government is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing to determine whether the Government complied with the terms and conditions of the CMIA Treasury-State Agreement, we tested 20 ($1,761,782) out of the 100 ($11,355,656) cash drawdowns made during the fiscal year. Fifteen of the twenty drawdowns tested in the amount of $957,620 were not in compliance with the clearance patterns stipulated in the CMIA Agreement according to the released date as follows:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-33 (continued)

Condition Found (continued)

#	Federal AccountID (G5/GAPS)	Total Cashdraw Requested	Transaction Types	Payment Release Date	Required Deposit Date	Actual Deposit Date	# Days Outside Required Date
1	H027A070002	$ 164,419.51	Payroll/Indirect cost Vendor Payments/	10/9/2008	10/13/2008	10/9/2008	4
2	H027A070002	$ 6,321.28	Vendor Payments	10/21/2008	10/25/2008	10/21/2008	4
3	H027A080001	$ 15,013.68	Vendor Payments	8/13/2009	8/17/2009	8/14/2009	3
4	H027A080001	$ 15,969.74	Vendor Payments	7/23/2009	7/27/2009	7/24/2009	3
5	H027A080001	$ 461,784.87	Vendor Payments/ Indirect cost	6/24/2009	6/28/2009	6/25/2009	3
6	H027A080001	$ 8,116.88	Vendor Payments	5/8/2009	5/12/2009	5/11/2009	1
7	H027A080001	$ 679.41	Vendor Payments	2/27/2009	3/3/2009	2/27/2009	4
8	H027A080001	$ 18,804.04	Vendor Payments	12/5/2008	12/9/2008	12/5/2008	4
9	H027A080001	$ 12,022.12	Vendor Payments	11/14/2008	11/18/2008	11/17/2008	1
10	H027A080001	$ 50.00	Vendor Payments	11/10/2008	11/14/2008	11/10/2008	4
11	H027A080001	$ 4,073.27	Vendor Payments	11/3/2008	11/7/2008	11/4/2008	3
12	H027A080001	$ 20,000.00	Vendor Payments	10/22/2008	10/26/2008	10/23/2008	3
13	H027A080001	$ 223,677.64	Vendor Payments	10/6/2008	10/10/2008	10/7/2008	3
14	H027A080004	$ 2,712.68	Vendor Payments	6/19/2009	6/23/2009	6/19/2009	4
15	H027A080004	$ 3,975.16	Vendor Payments	6/12/2009	6/16/2009	6/12/2009	4

In all cases, the noncompliance relates to drawdowns being requested before the specified date as per CMIA Agreement. This circumstance is evidence of lack of sufficient or effective internal controls over drawdowns to ensure required funding patterns are met.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to ensure required funding patterns are made in compliance with the CMIA Treasury-State Agreement are not operating effectively.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-33 (continued)

Effect
This condition may affect cash flow demands of Government's operating accounts and non-compliance with the CMIA Treasury-State Agreement.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the clearance patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Third Party Fiduciary for the Virgin Islands Department of Education during the audited period was required in Section A8 of the Special Conditions attached to the U.S. Department of Education (USDE) grant awards dated June 19, 2009, to provide written notice to the Department of Education when funds are needed for disbursements. The Department of Education was required to draw down those funds within 24 hours of receipt of the written notice by the fiduciary. If the Department of Education failed to adhere to this requirement, USDE could transfer drawdown authority from the Department of Education to the fiduciary. The Department of Education is required to comply with all the terms of the Special Conditions established by USDE in order to receive continued funding from the agency. In all instances, the Department of Education ensured that it complied with the 24 hour drawdown request as part of the process to regain fiscal management of all USDE grants in the future.

The Department of Education recognizes the conflicting language in the Special Conditions and the CMIA Treasury-State Agreement. The Department of Education has begun dialogue with the Department of Finance and the Office of Management and Budget to address this issue in future CMIA Treasury-State Agreements between the Government of the U.S. Virgin Islands and the U.S. Department of Treasury.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-33 (continued)

Auditor's Conclusion
While the auditor acknowledges the additional rules, the VI Department of Education (VIDE) is subject to and that no exceptions over compliance with those rules have been noticed, the criteria in our finding is also a requirement for the program and, as implied in Management's Response, it was not complied with. Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-34

Program
U.S. Department of Education – Grants to States (IDEA, Part B) – CFDA No.84.027

Category
Internal Control

Compliance Requirement
Procurement and Suspension and Debarment

Criteria
In accordance with 34 CFR parts 80 and 85, the Government shall establish procedures for the effective use of the List of Parties Excluded (EPLS) from Federal Procurement or Nonprocurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order.

Condition Found
During our test to determine whether the Government performed a verification check for covered transactions, by checking the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity, we noted that the Government was unable to provide us with supporting documentation to evidence the verification of such transactions. However, the Government verbally assured us that verification is made upon initial requisition, but not formally documented. Furthermore, for all transactions selected, we noted that all related vendors were excluded from EPLS without exception.

Questioned Costs
Not applicable.

Underlying Cause
It appears that internal controls to ensure evidence of the required verification documented were not in place during the fiscal year under audit.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-34 (continued)

Effect
The Government may have entered into transactions with suspended or debarred vendors, which could lead to disallowance of Federal funds.

Recommendation
The Government should establish a procedure to ensure all required verifications are documented and maintained in vendor files.

Management's Response
Prior to approving a purchase, the Director of Property, Procurement, and Auxiliary Services checks the EPLS to verify that the vendor has not been suspended or debarred. The Department of Education has never entered into transactions with debarred or suspended vendors as verifications are routinely performed. The Department of Education through the Department of Property and Procurement follows procurement procedures established in the Virgin Islands Code. The Department of Property and Procurement conducts verifications of debarred/suspended vendors as part of the procurement regulations. Further, the Department of Education implemented a policy memorandum on March 30, 2011, which requires persons initiating purchases to attach a copy of the search results in the Tyler Munis system as part of the procurement requirements for Federal purchases. The copy of the EPLS verification will be verified by the Director of Property, Procurement, and Auxiliary Services prior to approval of the purchase.

Auditor's Conclusion
As stated in our finding, evidence supporting the existence or effective operations of internal controls over this compliance requirement was not provided. Therefore, our finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Education

State Grants for Innovative Programs
CFDA No. 84.298

This former Title VI Program was reauthorized by the No Child Left Behind Act (NCLB Act), Pub. L. No. 108-110, as Title V, Part A of the Elementary and Secondary Education Act (ESEA). The objectives of Title V, Part A are to: (1) support local educational reform efforts that are consistent with and support statewide education reform efforts; (2) provide funding to enable State Educational Agencies (SEAs) and Local Educational Agencies (LEAs) to implement promising educational reform programs and school improvement programs based on scientifically based research; (3) provide a continuing source of innovation, and educational improvement, including support programs to provide library services and instructional and media materials; (4) meet the educational needs of all students, including at-risk youth; and (5) develop and implement education programs to improve school, student, and teacher performance, including professional development activities and class size reduction programs (Title V, Part A, Section 5101(a) of the ESEA (20 USC 7201(a))).

Total State Grant for Innovative Programs Federal expenditures for the fiscal year ended September 30, 2009 amounted to $31,177,289.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-35

Program
U.S. Department of Education – State Grants for Innovative Programs – CFDA No.84.298

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the CMIA Treasury-State Agreement between the Government of the Government and the US Department of Treasury in effect during fiscal year 2009, the Government is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing to determine whether VIDE has complied with the terms and conditions of the CMIA Treasury-State Agreement, we tested 17 ($11,741,719) out of the 166 ($36,290,696) cash drawdowns made during the fiscal year. Eight drawdowns tested, in the amount of $3,959,267, were not in compliance with the clearance funding patterns stipulated in the CMIA Agreement according to the released date from the Fiduciary as follows:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-35 (continued)

Condition Found (continued)

#	Federal AccountID (G5/GAPS)	Total Cashdraw Requested	Transaction Types	Payment Release Date	Required Deposit Date	Actual Deposit Date	# Days Outside Required Date
1	S922A060004	$ 1,100,811	Payroll/ Indirect cost	10/3/2008	10/7/2008	10/3/2008	4
2	S922A070004	71,669	Vendor payments	8/20/2009	8/24/2009	8/21/2009	3
3	S922A070004	28,612	Vendor payments	6/18/2009	6/22/2009	6/19/2009	3
4	S922A070004	83,806	Vendor payments	2/13/2009	2/17/2009	2/13/2009	4
5	S922A080004	728,243	Vendor payments	7/10/2009	7/14/2009	7/13/2009	1
6	S922A080004	1,885,944	Vendor payments	6/26/2009	6/30/2009	6/26/2009	4
7	S922A080004	8,068	Vendor payments	6/18/2009	6/22/2009	6/19/2009	3
8	S922A080004	52,114	Vendor payments	4/23/2009	4/27/2009	4/24/2009	3
		$ 3,959,267					

In all cases, the noncompliance relates to drawdowns being requested before the specified date as per CMIA Agreement. This circumstance is evidence of lack of sufficient or effective internal controls over drawdowns requirements.

Questioned Costs
None.

Underlying Cause
Internal controls to ensure required funding patterns are made in compliance with the CMIA Treasury-State Agreement are not operating effectively.

Effect
This condition may affect cash flow demands of the Government's operating accounts and non-compliance with the CMIA Treasury-State Agreement.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-35 (continued)

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the clearance patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Third Party Fiduciary for the Virgin Islands Department of Education during the audited period was required in Section A8 of the Special Conditions attached to the U.S. Department of Education (USDE) grant awards dated June 19, 2009, to provide written notice to the Department of Education when funds are needed for disbursements. The Department of Education was required to draw down those funds within 24 hours of receipt of the written notice by the fiduciary. If the Department of Education failed to adhere to this requirement, USDE could transfer drawdown authority from the Department of Education to the fiduciary. The Department of Education is required to comply with all the terms of the Special Conditions established by USDE in order to receive continued funding from the agency. In all instances, the Department of Education ensured that it complied with the 24 hour drawdown request as part of the process to regain fiscal management of all USDE grants in the future.

The Department of Education recognizes the conflicting language in the Special Conditions and the CMIA Treasury-State Agreement. The Department of Education has begun dialogue with the Department of Finance and the Office of Management and Budget to address this issue in future CMIA Treasury-State Agreements between the Government of the U.S. Virgin Islands and the U.S. Department of Treasury.

Auditor's Conclusion
While the auditor acknowledges the additional rules, the VIDE is subject to and that no exceptions over compliance with those rules have been noticed, the criteria in our finding is also a requirement for the program and, as implied in Management's Response, it was not complied with. Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-36

Program
U.S. Department of Education – State Grants for Innovative Programs – CFDA No.84.298

Category
Internal Control

Compliance Requirement
Procurement and Suspension and Debarment

Criteria
In accordance with 34 CFR parts 80 and 85, the Government shall establish procedures for the effective use of the List of Parties Excluded (EPLS) from Federal Procurement or Nonprocurement programs to assure that they do not award assistance to listed parties in violation of the Executive Order.

Condition Found
During our test to determine whether the Government performed a verification check for covered transactions, by checking the EPLS, collecting a certification from the entity, or adding a clause or condition to the covered transaction with the entity, we noted that the Government was unable to provide us with supporting documentation to evidence the verification of such transactions. However, the Government verbally assured that verification is made upon initial requisition, but not formally documented. Furthermore, for all transactions selected, we noted that all related vendors were excluded from EPLS without exception.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to ensure evidence of the required verification is documented were not in place during the fiscal year under audit.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-36 (continued)

Effect
The Government may have entered into transactions with suspended or debarred vendors, which could lead to disallowance of Federal funds.

Recommendation
The Government should establish a procedure to ensure all required verifications are documented and maintained in vendor files.

Management's Response
Prior to approving a purchase, the Director of Property, Procurement, and Auxiliary Services checks the EPLS to verify that the vendor has not been suspended or debarred. The Department of Education has never entered into transactions with debarred or suspended vendors as verifications are routinely performed. The Department of Education through the Department of Property and Procurement follows procurement procedures established in the Virgin Islands Code.

The Department of Property and Procurement conducts verifications of debarred/suspended vendors as part of the procurement regulations. Further, the Department of Education implemented a policy memorandum on March 30, 2011, which requires persons initiating purchases to attach a copy of the search results in the Tyler Munis system as part of the procurement requirements for Federal purchases. The copy of the EPLS verification will be verified by the Director of Property, Procurement, and Auxiliary Services prior to approval of the purchase.

Auditor's Conclusion
As stated in our finding, evidence supporting the existence or effective operations of internal controls over this compliance requirement was not provided. Therefore, our finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Temporary Assistance for Needy Families (TANF)
CFDA No. 93.558

The objective of the State and Tribal TANF programs are to provide time-limited assistance to needy families with children so that the children can be cared for in their own homes or in the homes of relatives; end dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevent and reduce out-of-wedlock pregnancies, including establishing prevention and reduction goals; and encourage the formation and maintenance of two-parent families. This Program replaced the Aid to Families with Dependent Children (AFDC), Job Opportunities and Basic Skills Training (JOBS), and Emergency Assistance (EA) programs.

Total TANF Federal expenditures for the fiscal year ended September 30, 2009, amounted to $3,857,167.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-37

Program
U.S. Department of Health and Human Services – TANF – CFDA No. 93.558

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
According to the 31 CFR 205 *"Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement"*: A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition Found
During our testing on cash management procedures to verify the timing of cash drawdowns were made as close to the date costs are actually paid as is administratively feasible, we noted that 3 drawdowns exceeded a reasonable time between the time funds were released and the transfers were made. Our sample consisted of 3 drawdowns from a total population of 22 cash draws totaling $2,180,959 during the Government's fiscal year. We utilized four (4) calendar days and zero (0) calendar days after the release of funds for non-payroll and payroll transactions, respectively, as a reasonable time for the drawdowns, based on other Department of Human Services programs which are under the CMIA agreement. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-37 (continued)

Condition Found (continued)

No.	Federal Account ID	Cash Receipt Journal	Drawdown Amount	Drawdown Type	Funds Released	Drawdown Settlement Date	Days Between Release and Deposit	Approximately Excess Days
1	A377P	910842	$ 340, 563	Payroll	8/28/09	8/31/09	3	3
2	A377P	843174	$ 122, 645	Payroll	6/15/09	6/25/09	10	10
3	A377P	795925	$ 46, 242	Payroll	5/04/09	5/07/09	3	3

Questioned Costs
Not applicable.

Underlying Cause
Internal controls of policies and procedures related to transfers of Federal funds for programs not included in the Treasury-State Agreement do not appear be operating effectively to minimize the timing between the time funds are released and the transfers are made to be as close as is administratively feasible.

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Government's cash accounts could affect cash flow demands and may cause other programs' or the Government's general operating funds to be indirectly funding other program activities.

Recommendation
The Government should ensure that policies and procedures are in place in order to comply with 31 CFR 205 Subpart B to minimize the timing between the time funds are released and the transfers are made.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-38

Program
U.S. Department of Health and Human Services – TANF – CFDA No. 93.558

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
Pursuant to 45 CFR 92.20(a)(1) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Furthermore, in accordance with 45 CFR 92.20 (b)(1): Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

Condition Found
During our testing to determine whether the ACF-196-TR Financial Report includes all activity of the reporting period, is supported by applicable accounting records, and is fairly presented in accordance with the program requirements, we noted a reconciliation difference of $21,411 between the total Federal share of expenditure (line 13) of the ACF-196-TR Financial Report and the Government's ERP as of September 30, 2009. Furthermore, we noted that certain inter-departmental service allocations (** in the following chart) have not been recorded to the appropriate ERP project code, which caused a reclassification misstatement in the Schedule of Expenditures of Federal Awards between the SNAP and TANF programs of approximately $349,111.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-38 (continued)

Condition Found

Reconciliation Item		Amount	
ERP expenditures-Project F9PAT	$	1,626,509	
ERP expenditures-F9JOB		697,589	
ERP expenditures-F9PLN		23,281	
Total ERP expenditures		2,347,379	
ACF-196-TR (Line 13)		2,795,411	
Difference		(448,032)	
Plus: Inter-departmental allocation		349,111	**
Plus: Encumbrance		69,059	
Adj. to F9PAT-September '09 payroll		8,451	
Remaining difference	$	(21,411)	

In addition, the Program could not provide us with the ACF-199 series reports for any of the four quarters of fiscal year 2009. Due to this situation, we could not test compliance with reporting requirements of the grant.

Finally, while testing PSC-272 series reports, we noted the PSC-272 for the four quarters of fiscal year 2009 were not properly signed evidencing approval, which represents lack of evidence of an internal control over this compliance requirement.

Questioned Costs
We have determined known questioned costs of $21,411 for expenditures reported in excess of ERP balances.

Underlying Cause
Internal controls to ensure complete and accurate reporting between the Government's accounting records and Federal financial reports are not operating effectively.

Effect
Inadequate internal controls related to reporting may lead to inaccurate financial information presented in reports submitted to the Federal government.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-38 (continued)

Recommendation
The Government should implement additional procedures and internal controls to ensure all required reports are filed, as well as documentation supporting the amounts reported. Also, procedures should be established to properly reconcile amounts on Federal reports with the general ledger.

Management's Response
The Department of Human Services does not concur with this finding.

Sufficient procedures are in place that ensures a proper reconciliation of ERP accounts. This difference may be attributed to adjustment not posted to the ERP (e.g., timing differences).

Auditor's Conclusion:
As stated in our finding, differences remained unexplained or uncorrected. Management's response seems to support the fact that, although a reconciliation process may exist, differences noted are not properly identified and corrected. Therefore, the finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-39

Program
U.S. Department of Health and Human Services – TANF – CFDA No. 93.558

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions: Income Eligibility and Verification System (IEVS)

Criteria
Each State shall participate in the Income Eligibility and Verification System (IEVS) required by section 1137 of the Social Security Act as amended. Under the State Plan the State is required to coordinate data exchanges with other federally assisted benefit programs, request and use income and benefit information when making eligibility determinations, and adhere to standardized formats and procedures in exchanging information with other programs and agencies. HHS may penalize a State for up to two percent of the SFAG for failure to participate in IEVS (42 USC 609(a)(4) and 1320b-7; 45 CFR section 264.10 and 264.11).

Condition Found
As per inquiries of Program management, the Government has not established and implemented the required IEVS system for data matching, and verification and use of such data during fiscal year 2009.

Questioned Costs
We were unable to determine known or likely questioned costs with the available information.

Underlying Cause
Internal controls were not operating effectively with regard to compliance with Special Tests and Provisions requirements.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-39 (continued)

Effect
The Government may have awarded Federal funds to a participant who is not eligible to participate in the Program.

Recommendation
The Government should implement procedures to ensure compliance with TANF's Special Tests and Provisions requirements.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Child Support Enforcement
CFDA No. 93.563

The objectives of the Child Support Enforcement programs are to: (1) enforce support obligations owed by non-custodial parents, (2) locate absent parents, (3) establish paternity, and (4) obtain child and spousal support.

Total Child Support Enforcement Federal expenditures for the year ended September 30, 2009 amounted to $5,353,009.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-40

Program
U.S. Department of Health and Human Services – Child Support Enforcement Program – CFDA No. 93.563

Category
Internal Control / Compliance

Compliance Requirement
Cash management

Criteria
In accordance with 31 CFR part 205 and the CMIA Treasury-State Agreement in effect for fiscal year 2009, between the Territory and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-40 (continued)

Condition Found

During our testing on cash management procedures to verify that the cash drawdowns were made as close as is administratively feasible, we noted that 5 draw-downs exceeded the time threshold and 4 transfers were made prior to the required transfer/deposit date required by the CMIA Treasury State Agreement. The following table shows the exceptions noted during our testing:

No.	Federal Grant ID	Drawdown Amount	Drawdown Type	Payment/ Check Release Date	Cash Draw Effective Deposit Date	Required Deposit Date per Treasury State Agreement	Days Between Check Release and Draw-Deposit	Days Between Cash Draw-Deposit and Required deposit date
1	0804VI4004	$ 77,950	Non-payroll	Tuesday, December 02, 2008	Wednesday, December 03, 2008	Friday, December 05, 2008	1	-2
2	0904VI4004	$ 96,847	Non-payroll	Wednesday, January 21, 2009	Friday, January 23, 2009	Monday, January 26, 2009	3	-1
3	0904VI4004	$ 54,007	Non-payroll	Thursday, January 22, 2009	Tuesday, January 27, 2009	Monday, January 26, 2009	2	1
4	0904VI4004	$ 1,567	Non-payroll	Monday, February 02, 2009	Thursday, February 05, 2009	Friday, February 06, 2009	3	-1
5	0904VI4004	$ 5,262	Non-payroll	Thursday, February 12, 2009	Tuesday, February 17, 2009	Monday, February 16, 2009	2	1
6	0904VI4004	$ 1,300	Non-payroll	Friday, February 13, 2009	Friday, February 20, 2009	Wednesday, February 18, 2009	4	2
7	0904VI4004	$152,430	Non-payroll	Tuesday, April 14, 2009	Thursday, April 16, 2009	Friday, April 17, 2009	2	-1
8	0904VI4004	$ 82,209	Payroll	Thursday, July 16, 2009	Monday, July 20, 2009	Thursday, July 16, 2009	2	3
9	0904VI4004	$ 11,747	Non-payroll	Wednesday, August 26, 2009	Thursday, August 27, 2009	Monday, August 31, 2009	2	-2

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-40 (continued)

Questioned Costs
Not applicable.

Underlying Cause
Policies and procedures related to transfers of Federal funds for programs included in the Treasury-State Agreement appear to not be operating effectively to meet the timing established in the Treasury State Agreement.

Effect
Delays in transferring Federal funds to cover direct cost expenditures into the Government's cash accounts could affect cash flow demands and may cause other programs or the Government's general operating funds to cover program activities. On the other hand, drawing cash from the system prior to incurring the expense may result in interest earnings not reported to or returned to the Federal government.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

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Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-41

Program
U.S. Department of Health and Human Services – Child Support Enforcement Program – CFDA No. 93.563

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
45 CFR 92.20(C)(2) requires that grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

45 CFR 92.20(C)(3) requires that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets.

45 CFR 92.20(C)(4) requires that, actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant.

Condition Found
The Child Support Enforcement program prepares Federal financial reports (which are the basis for reimbursement) based on information obtained from the Program records. However, these reports do not agree with supporting records as follows:

Expenditures-Federal Share per Breakdown	$ 3,953,772
Net Federal Share per 396A	3,741,281
Difference	$ (212,491)

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-41 (continued)

Condition Found (continued)
The Program did not perform a reconciliation of its accounting records with amounts reported.

Questioned Costs
Not applicable.

Underlying Cause
Lack of reconciliation between amounts reported in Quarterly Financial Report (OCSE 396 A) with the amounts accounted for in the Government's accounting system.

Effect
The lack of timely reconciliation of the Program's records with amounts reported in Quarterly Financial Report (OCSE 396 A) may lead to incorrect financial information presented in reports submitted to the Federal government and claims for reimbursement.

Recommendation
The Child Support Enforcement Program should implement additional procedures and internal controls to ensure proper reconciliation between Program accounting records and reports filed is performed timely and discrepancies investigated. Timely reconciliations are necessary to ensure accurate reporting to the U.S. Department of Health and Human Services Agency.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-42

Program
U.S. Department of Health and Human Services – Child Support Enforcement Program – CFDA No. 93.563

Category
Internal Control / Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
45 CFR 92.32(C)(4)(d)(2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.

Condition Found
The Child Support Enforcement Program was unable to provide us with evidence of the performance of a physical inventory of property within the past two years.

Questioned Costs
Not applicable.

Underlying Cause
The Child Support Enforcement Program does not appear to have a process in place for performing physical inventories, including a reconciliation of the inventory observed with inventory records.

Effect
Inappropriate recordkeeping of equipment could lead to misappropriation of assets and noncompliance with Federal regulations.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-42 (continued)

Recommendation
The Child Support Enforcement program should perform a physical inventory of equipment purchased with Federal funds and include any unrecorded assets with V.I. Property and Procurement Office.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Head Start Cluster
CFDA Nos. 93.600 and 93.708

The objective of the Head Start Cluster is to promote the school readiness of low-income preschool children by enhancing their cognitive social and emotional development in learning environments that support their growth in language, literacy, mathematics, science, social and emotional functioning, creative art, physical skills, and approaches to learning.

Head Start Cluster expenditures for the fiscal year ended September 30, 2009, amounted to $8,707,294.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-43

Program
U.S. Department of Health and Human Services – Head Start Cluster – CFDA Nos. 93.600 and 93.708

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the CMIA Treasury-State Agreement in effect for fiscal year 2009, between the Territory and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing to determine whether the Government have complied with the terms and conditions of the CMIA Treasury-State Agreement, we tested (3) three out of the (17) seventeen cash drawdowns made during the fiscal year totaling $7,838,447. All three drawdowns tested, in the amount of $2,723,360, were not in compliance with the clearance funding patterns stipulated in the CMIA Agreement according to documentation maintained by the Department of Human Services as follows:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-43 (continued)

Condition Found (continued)

Sample No.	Cash Receipt Journal #	Total Cashdraw Requested	Check#	Cashdraw Type	Payment Release Date	Required Deposit Date	Deposit Date	Excess Days
1	4253	$ 50,215	9199159	Vendor payment	02/10/09	02/14/09	02/23/09	9
2	4831	$ 415,102	N/A	Payroll	Various	Various	04/27/09	> 4
3	6551	$ 2,258,042	N/A	Payroll	Various	Various	01/30/09	> 30

In addition, we noted that there were only seventeen (17) cash draw-downs during the period, when there are (26) twenty-six pay periods throughout the fiscal year. As per the CMIA agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Thus, we noted that the Government accumulated several pay periods per cash draw request, instead of requesting the cash for every pay period, to comply with the CMIA agreement average clearance pattern. While this situation did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over draw-downs requirements.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement to minimize the timing between the time funds are released and the transfers are made are not operating effectively.

Effect
Delays in transferring Federal funds to cover program outlays into the Government's cash accounts could affect cash flow demands and may cause Head Start program activities to be funded by other programs' or the Government's general operating funds.

Finding Number: 09-43 (continued)

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-44

Program
U.S. Department of Health and Human Services – Head Start Cluster – CFDA Nos. 93.600 and 93.708

Category
Internal Control / Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
Pursuant 34 CFR 80.32 (d) (1) "Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property" and (2) "A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

Condition Found
During our procedures, we examined Federal acquisitions property records which could not be reconciled to the General Ledger or property management records. Additionally during our review we noticed several items did not include acquisition date, lacked of description, lacked a serial or asset identification number and percentage of Federal participation in the cost of the property.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to maintain complete and accurate Property and Equipment records are not operating effectively.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-44 (continued)

Effect
Inadequate internal controls related to Equipment and Real Property management may lead to inaccurate financial information as well as non-compliance with the OMB A-133 requirements.

Recommendation
The Government should enforce that effective internal controls are put in place to ensure Equipment and Property records are complete, accurate, and supported, as required.

Management's Response
The program does not concur that there was lack of information on property records Inventory records at Head Start are complete.

Auditor's Conclusion
As stated in our finding, documentation provided during the performance of our procedures was incomplete as it did not include required information.

In addition, Management Response does not address our finding on property records not reconciling to General Ledger.

Therefore, finding remains as stated.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-45

Program
U.S. Department of Health and Human Services – Head Start Cluster – CFDA Nos. 93.600 and 93.708

Category
Internal Control / Compliance

Compliance Requirement
Matching, Level of Effort, Earmarking - Targeted Earmark

Criteria
Each Head Start agency must enroll 100 percent of its funded enrollment (42 USC 9387(g)). For Fiscal Year 2009 and thereafter, not less than 10 percent of the total number of children actually enrolled by each Head Start Agency and each delegate agency must be children with disabilities determined to be eligible for special education and related services unless a waiver has been approved by ACF (42 USC 9835(d)).

Condition Found
During our procedures, we noticed the Department did not comply with this requirement as Total Beneficiaries with disabilities were 8% percent of the total children enrolled.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to monitor compliance with targeted earmarking requirements are not functioning effectively.

Effect
Inadequate internal controls related to targeted earmark may lead to noncompliance of the OMB A-133 requirements.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-45 (continued)

Recommendation
The Government should ensure that effective internal controls are put in place to ensure targeted earmark requirements are met, as required.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Social Services Block Program
CFDA No. 93.667

The objective of the Social Services Block Program is to provide services for individuals, families, and entire population groups in one or more of the following areas: (1) achieving or maintaining economic self-support and self-sufficiency to prevent, reduce, or eliminate dependency; (2) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests; (3) preserving, rehabilitating, or reuniting families; (4) preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of intensive care; and (5) securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

Social Services Block Program expenditures for the fiscal year ended September 30, 2009, amounted to $5,805,431.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-46

Program
U.S. Department of Health and Human Services – Social Services Block Program – CFDA No. 93.667

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the CMIA Treasury-State Agreement in effect for fiscal year 2009, between the Territory and the U.S. Secretary of the Treasury, the Territory is required to use an "average clearance" funding technique for vendor and payroll related costs. Under the "average clearance" funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government's bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing to determine whether the Government has complied with the terms and conditions of the CMIA Treasury-State Agreement, we tested (2) two out of the (19) nineteen cash draw-downs made during the fiscal year totaling $4,254,919. From this sample, we were unable to test when the cash draw was made for one transaction (#1074) and noted that the second cash draw (#6449) did not comply with the clearance patterns for vendor payments. As a result, the two draw-downs selected for testing, in the amount of $598,418, were not in compliance with the clearance funding patterns stipulated in the CMIA Agreement according to documentation maintained by the Department of Human Services breakdown as follows:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-46 (continued)

Condition Found (continued)

No.	Cash Receipt Journal #	Total Draw Requested	Check#	Cashdraw Type	Payment Release Date	Deposit Date	Required Deposit Date	Excess Days
1	1074	$ 424,228	Various	Payroll/Vendor payments	Various	Unknown	Various	Unknown
2	6449	$ 174,190	Various	Payroll/Vendor payments	06/26/09	08/27/09	06/30/09	58

In addition, we noted that there were only nineteen (19) cash drawdowns during the period, when there are 26 payroll pay periods throughout the fiscal year. As per the CMIA agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Thus, we noted that the Government accumulated several pay periods per cash draw request, instead of requesting the cash for every pay period, to comply with the CMIA agreement average clearance pattern. While this situation did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over draw-downs requirements.

Furthermore, as part of our procedures we noticed payroll drawdowns were requested based on projected salaries amount. Prospective adjustments are then made to future requests based on the actual salaries expenditures. As a result, requested amounts were not related to actual disbursements.

For other transactions, management could not provide us with requested documentation related to draws deposits. As a result, we could not assess compliance for these transactions.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement to minimize the timing between the time funds are released and the transfers are made are not operating effectively.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-46 (continued)

Effect
Delays in transferring Federal funds to cover program outlays into the Government's cash accounts could affect cash flow demands and may cause Social Services Block Grant program activities to be funded by other programs' or the Government's general operating funds. Additionally, requesting Federal cash draws based on projected salaries could trigger Federal cash receipts without supporting evidence differences, which could result on allowability issues.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Health and Human Services

Medical Assistance Program
(Medicaid-Title XIX)
CFDA No. 93.778

The objective of the Medical Assistance Program (Medicaid or Title XIX of the Social Security Act, as amended, (42 USC 1396 et seq.)) is to provide payments for medical assistance to low-income persons who are age 65 or over, blind, disabled, or members of families with dependent children or qualified pregnant women or children.

Medical Assistance Program Federal expenditures for the fiscal year ended September 30, 2009, amounted to $11,139,814.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-47

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control

Compliance Requirement
Reporting

Criteria
Recipients of Federal awards are to maintain adequate controls over their books and records in order to prepare appropriate financial statements, including the Schedule of Expenditures of Federal Awards (OMB Circular A-133, Section .300(d)).

Condition Found
The Schedule of Expenditures of Federal Awards (SEFA) is to provide total Federal awards expended for each individual Federal program. Errors were identified in the preparation of the September 30, 2009 Schedule of Expenditures of Federal Awards.

As part of our testing, items were identified that were not properly recorded in the September 30, 2009 Schedule of Expenditures of Federal Awards according to the definition of expenditures per OMB Circular A-133. The September 30, 2009 SEFA was not corrected and did not reflect expenditures of $2,849,942 reported and requested for reimbursement, calculated as follows:

Expenditures per SEFA	$ 11,139,814
Expenditures Reported (CMS 64)	13,989,756
Difference	$ (2,849,942)

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-47 (continued)

Questioned Costs
Not applicable.

Underlying Cause
Inadequate controls over financial reporting resulted in errors in the preparation of the Schedule of Expenditures of Federal Awards. Lack of reconciliation between Federal grant expenditures recorded in the Government's Federal program records with the amounts accounted for in its accounting system.

Effect
The September 30, 2009 SEFA for the Medical Assistance Program (Medicaid; Title XIX) was understated by $2,849,942.

Recommendation
The Government should implement additional procedures and internal controls to ensure its Schedule of Expenditures of Federal Awards is prepared properly to include all Federal expenditures applicable to the reporting period. The Government should ensure proper reconciliation between its accounting system and Federal expenditures at the program level timely performed and discrepancies are investigated.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-48

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions: Utilization Control and Government Integrity

Criteria
In accordance with 42 CFR parts 455, 456, and 1002, the State plan must provide methods and procedures to safeguard against unnecessary utilization of care and services, including long-term care institutions. In addition, the State must have: (1) methods or criteria for identifying suspected fraud cases; (2) methods for investigating these cases; and (3) procedures, developed in cooperation with legal authorities, for referring suspected fraud cases to law enforcement officials.

Condition Found
The Government was unable to provide supporting documentation to evidence the performance of the procedures mentioned in the Criteria section throughout the fiscal year.

Questioned Costs
Not applicable.

Underlying Cause
Although the State Plan provides methods and procedures against unnecessary utilization of care and services, the Government does not have a process in place to ensure these procedures are performed.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-48 (continued)

Effect
The lack of a process to ensure these procedures are performed may lead to benefits being provided to beneficiaries who may no longer be eligible to receive such benefits.

Recommendation
The Government should establish processes to ensure that procedures to safeguard against unnecessary utilization of care and services are placed in operation.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-49

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
In accordance with 31 CFR part 205 and the CMIA Treasury-State Agreement in effect for fiscal year 2009, between the Territory and the U.S. Secretary of the Treasury, the Territory is required to use an “average clearance” funding technique for vendor and payroll related costs. Under the “average clearance” funding technique, the Government may submit claims for reimbursement such that the funds are deposited, by ACH on the dollar-weighted average day of clearance, in the Government’s bank account on the fourth day following the release of funds for vendor disbursements and on the day in which payroll checks are released for payroll related costs. Furthermore, reimbursement requests shall be for the exact amounts disbursed.

Condition Found
During our testing to determine whether the Government has complied with the terms and conditions of the CMIA Treasury-State Agreement, we tested (3) three out of the (16) sixteen cash drawdowns made during the fiscal year totaling $13,323,260. All three drawdowns tested, in the amount of $180,110, were not in compliance with the clearance funding patterns stipulated in the CMIA Agreement according to mail logs maintained by the Department of Finance as follows:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-49 (continued)

Condition Found (continued)

Sample No.	Month	Drawdown Amount	Payment Release Date	Deposit Date	Required Deposit Date	Excess Days
1	October	$ 88,405	10/23/08 – 11/20/08	12/16/08	10/23/08 – 11/20/08	26 – 54
2	August	$ 57,303	8/13/09 – 8/27/09	9/15/09	8/13/09 – 8/27/09	19 – 33
3	September	$ 34,402	9/10/09	9/29/09	9/10/09	19

In all cases, the noncompliance relates to drawdowns being requested after the specified date as per CMIA Agreement. While this circumstance did not lead to drawing funds in advance of the CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdowns requirements.

In addition, we noted that there were only (9) nine cash drawdowns related to payroll expenses, when there are 26 pay periods throughout the fiscal year. As per the CMIA agreement, cash draws related to payroll should be made upon every payday with an average clearance pattern of 0 (zero) days. Therefore, we noted that the Government accumulated approximately 4 pay periods per cash draw request, instead of requesting the cash for every pay period, to comply with the CMIA agreement average clearance pattern. While this situation did not lead to drawing funds in advance of CMIA established timing, it is evidence of lack of sufficient or effective internal controls over drawdowns requirements.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds for programs included in the CMIA Treasury-State Agreement to minimize the timing between the time funds are released and the transfers are made, are not operating effectively

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-49 (continued)

Effect

Delays in transferring Federal funds to cover program outlays into the Government's cash accounts could affect cash flow demands and may cause MAP program activities to be funded by other programs' or the Government's general operating funds.

Recommendation

The Government should ensure that policies and procedures are enforced in order to comply with the appropriate funding patterns set forth in the CMIA Treasury-State Agreement.

Management's Response

The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-50

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Compliance

Compliance Requirement
Eligibility

Criteria
As described in 42 USC 1320b-7(d), 42 CFR sections 435.907 and 435.913, a written application signed under penalty of perjury and inclusion in each applicant's case record is required to support the agency's decision on the application.

Condition Found
During our testing to determine whether required eligibility determination for individuals participants were made, the Government was unable to provide one out of 65 case files selected, MAP Number 8P038019898220, to verify if a signed written application was made.

Questioned Costs
Could not be determined.

Underlying Cause
Although current internal controls provide that eligibility documentation should be maintained in the participant's records, the Government was unable to locate the supporting documents of the participant selected to support eligibility.

Effect
The Government may have awarded Federal funds to an individual who is not eligible to participate in the Program.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-50 (continued)

Recommendation
The Government should implement procedures to ensure that all participant files are properly maintained and available. A checklist of documents required to support eligibility and maintained in each file could assist with this process.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-51

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
Pursuant to 45 CFR 92.20(b)(1-2), (1) accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition Found
During our testing to determine whether required reports for Federal awards include all activity of the reporting period, we noted that the transactions related to purchases of goods and services did not reconcile with the CMS 64's (which is the basis for reimbursement), as follows:

Expenditures per transaction detail	$ 13,694,368
Per CMS-64's (all quarters combined)	13,989,756
Difference	$ (295,388)

Questioned Costs
We have determined known questioned costs of $295,388.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-51 (continued)

Underlying Cause
Current procedures do not include for proper reconciliation of reported amounts to the U.S. Department of Health and Human Services with related accounting records.

Effect
Lack of a supervisory review of reports may result in undetected errors in Federal financial reports. These may lead to incorrect financial information presented in reports submitted to the Federal government and reimbursement for potentially unallowable costs.

Recommendation
The Government should establish appropriate procedures to ensure that CMS-64 reports are reconciled to the accounting records.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-52

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Reporting; Cash Management

Criteria
Pursuant to 45 CFR 92.20(b)(1-2), (1) accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant. (2) Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

Condition Found
During our testing to determine whether the amounts reported in the CMS-64 Quarterly Statement of Expenditures for the Medical Assistance Program (which is the basis for reimbursements) are fairly presented in accordance with the program requirements, we noted the amounts reported did not reconcile to the outlays reported in the PSC-272 Federal Cash Transactions Report by $1,040,040 (Comparison A). Moreover, we compared the expenditures reported per the CMS-64 to the cash draws made per the client's records, and noted a difference of $666,496 (Comparison B), as follows:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-52 (continued)

Condition Found (continued)

	Comparison A	Comparison B
CMS-64's (all quarters combined)	$ 13,989,756	$ 13,989,756
Less: PSC-272's (all quarters combined)	12,949,716	–
Less: Cash Draws	–	13,323,260
	$ 1,040,040	$ 666,496

Questioned Costs
Not applicable.

Underlying Cause
Current procedures do not include a reconciliation of the Government's records with cash draws.

Effect
Not transferring Federal funds to cover direct cost expenditures into the government's cash accounts could affect cash flow demands and may cause other programs' or the Government's general operating funds to be indirectly funding program activities.

Recommendation
The Government should implement procedures and internal controls to ensure proper reconciliation between cash draws and the Federal expenditures at Government level. Any discrepancies should be investigated.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-53

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions: Automated Data Processing Risk Analysis and System Security Review.

Criteria
Pursuant to 45 CFR section 95.621, state agencies must establish and maintain a process for conducting periodic risk analyses to ensure that appropriate, cost effective safeguards are incorporated into new and existing systems. State agencies must perform risk analyses whenever significant system changes occur. State agencies shall review the Automated Data Processing (ADP) system security installations involved in the administration of HHS program on a biennial basis. At a minimum, the reviews shall include an evaluation of physical and data security operating procedures, and personnel practices. The State agency shall maintain reports on its biennial ADP system security reviews, together with pertinent supporting documentation, for HHS on-site reviews.

Condition Found
The Government did not provide supporting documentation to evidence the performance of required ADP Risk Analysis and System Security Reviews.

Questioned Costs
Not applicable.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-53 (continued)

Underlying Cause
Although current policies and procedures include the performance of periodic ADP reviews, the Government does not have appropriate controls in place to ensure these procedures are performed.

Effect
The absence of policies to ensure these analyses and reviews are performed may lead to physical and data security issues, and noncompliance with program requirements.

Recommendation
The Government should establish appropriate policies to ensure that required biennial analysis and reviews are being performed.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-54

Program
U.S. Department of Health and Human Services – Medical Assistance Program (Medicaid – Title XIX) - CFDA No. 93.778

Category
Internal Control / Compliance

Compliance Requirement
Special Tests and Provisions: Inpatient Hospital and Long-Term Care Facility Audits

Criteria
In accordance with 42 CFR section 447.253, the State Medicaid agency pays for inpatient hospital services and long-term care facility services through the use of rates that are reasonable and adequate to meet the costs that must be incurred by efficiently and economically operated providers. The State Medicaid agency must provide for the filing of uniform cost reports for each participating provider. These cost reports are used to establish payment rates. The State Medicaid agency must provide for the periodic audits of financial and statistical records of participating providers.

Condition Found
The Government did not provide supporting documentation to support the preparation of the cost reports required for Inpatient Hospital and Long-Term Care Facility Audits.

Questioned Costs
Not applicable.

Underlying Cause
The Government does not have appropriate controls in place to ensure these procedures are performed.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-54 (continued)

Effect
The absence of controls to ensure that these audits and reviews are performed may lead to the use of unreasonable rates or inadequate costs to be charged to the program, as well as noncompliance with program requirements.

Recommendation
The Government should establish appropriate controls to ensure that inpatient audits and reviews are being performed.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

U.S. Department of Homeland Security

Homeland Security Grant Program
CFDA No. 97.067

The Homeland Security Grant Program is intended to improve and significantly enhance the ability of the Nation to prevent, deter, respond to and recover from, threats and incidents of terrorism and to enhance regional preparedness. The program provides financial assistance to the states (and through the states to local governments) to support activities such as planning, equipment, training, and exercises to address critical resource gaps identified in the assessments and priorities outlined within each states' Homeland Security Strategy. States are encouraged to develop regional approaches to planning and preparedness and to adopt, as appropriate, regional response structures.

Total Homeland Security Grant Program Federal expenditures for the fiscal year ended September 30, 2009, amounted to $4,071,175.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-55

Program
U.S. Department of Homeland Security – Homeland Security Grant Program – CFDA No. 97.067

Category
Internal Control / Compliance

Compliance Requirement
Equipment and Real Property Management

Criteria
Pursuant to 32CFR section 33.32(d) (1) and (2), property records must be maintained that include a description of the property, a serial number or other identification number, the source of the property, who holds the title, the acquisition date and the cost of the property , percentage of Federal participation in the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property, a serial number or other identification number, the source of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including date of disposal and sale price of the property.

Condition Found
The Government did not provide property records to evidence appropriate recordkeeping safeguards of equipment purchased with Federal funds, and evidence of the performance of a physical inventory of the property within the past two years.

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to ensure property records are readily available for inspection were not operating effectively.

Finding Number: 09-55 (continued)

Effect
Inappropriate recordkeeping of property records could lead to misappropriation of assets and noncompliance with Federal regulations.

Recommendation
The Government should maintain readily available property records for inspections that easily identify property acquired with Federal grant funds. In addition, the Government should establish procedures to ensure that physical inventory of equipment purchased with Federal funds is performed at least every two years.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-56

Program
U.S. Department of Homeland Security – Homeland Security Grant Program – CFDA No. 97.067

Category
Internal Control / Compliance

Compliance Requirement
Reporting

Criteria
29 CFR 97.20(B)(6) requires that internal controls be maintained to ensure that Federal transactions are properly recorded and accounted for in the recipient's books and records so as to enable to prepare reliable Federal reports.

Condition Found
During our testing to determine whether the Financial Status Report (SF-269) included all activity of the reporting period, are supported by applicable accounting records, and are fairly presented in accordance with the program requirements, the Government was unable to provide us with supporting schedules that would enable us to trace reported amounts on the SF-269 to the Government's accounting system (also known as ERP) for grant ID numbers 2008-GE-T8-0046 (Project codes F8HSV & F88HV) and 2007-GE-T8-0041 (Project code F78HV).

Questioned Costs
Not applicable.

Underlying Cause
Internal controls to ensure financial reports submitted to the Federal grantor are readily available for inspections are not operating effectively.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-56 (continued)

Effect
Inappropriate recordkeeping of financial reports submitted to the Federal grantor may lead to noncompliance with Federal administrative requirements.

Recommendation
The Government should ensure effective internal controls are in place related to recordkeeping to ensure financial reports submitted to the Federal grantor are readily available for inspection.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-57

Program
U.S. Department of Homeland Security – Homeland Security Grant Program – CFDA No. 97.067

Category
Internal Control / Compliance

Compliance Requirement
Cash Management

Criteria
According to the 31 CFR 205 "Subpart B—Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement": A State must minimize the time between the drawdown of Federal funds from the Federal government and their disbursement for Federal program purposes. A Federal Program Agency must limit a funds transfer to a State to the minimum amounts needed by the State and must time the disbursement to be in accord with the actual, immediate cash requirements of the State in carrying out a Federal assistance program or project. The timing and amount of funds transfers must be as close as is administratively feasible to a State's actual cash outlay for direct program costs and the proportionate share of any allowable indirect costs.

Condition Found
During our testing of cash management procedures to verify the timing of cash drawdowns were made as close as is administratively feasible, we noted that 4 drawdowns of the 5 selected for testing exceeded a reasonable time between the payments released and the cash drawdown. Our population of cash draws consisted of 24 transactions of various grants amounting $3,668,768. The sample of five (5) draws totaled $1,205,736. The following table shows the exceptions noted during our testing:

Part III - Federal Awards Findings and Questioned Costs Section (continued)

Finding Number: 09-57 (continued)

Condition Found (continued)

#	Journal #	Account#	Total Cashdraw Requested	Cashdraw Type	Check# Selected	Check Amount	Payment Release Date	Actual Deposit Date	Days between (Release - Actual date)
1	4807	2006GET60055	$ 97,145	Non-payroll	9199468	$ 75,000	2/25/09	6/18/09	113 days
2	5320	2006GET60055	$ 196,492	Non-payroll	9197708	$ 104,007	10/28/08	2/23/09	118 days
3	198	2006GET60055	$ 362,649	Non-payroll	9199820	$ 114,000	3/12/09	6/22/09	102 days
4	2780	2006GET60055	$ 543,053	Non-payroll	9199839	$ 287,156	3/12/09	6/10/09	90 days

Questioned Costs
Not applicable.

Underlying Cause
Internal controls related to transfers of Federal funds, to minimize the timing between the funds are released and the transfers are made, are not operating effectively.

Effect
Delays in transferring Federal funds to cover program cost into the Government's cash accounts could affect cash flow demands.

Recommendation
The Government should ensure that policies and procedures are enforced in order to comply with the cash management requirement of minimizing the time elapsing between the transfer of funds from the U.S. Treasury and actual disbursements.

Management's Response
The Government concurs with the auditor's findings and recommendations. Refer to the Corrective Action Plan for further details.

Government of the United States Virgin Islands

Summary Schedule of Prior Audit Findings

September 30, 2009

Finding 08-12

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	SNAP Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$30,739
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Corrected

Finding 08-13

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	SNAP Cluster
Type of Compliance Requirement	Special Test and Provisions – ADP System for Food Stamps (Eligibility)
Amount of Questioned Costs	$6.492
Contact Person Responsible for Corrective Action Plan	Administrator of the Division of Family Assistance – Department of Human Services
Status	Corrected

Finding 08-14

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	SNAP Cluster
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Recurring (09-12)

Finding 08-15

CFDA Number	10.555, 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Acting Director of Special Nutrition Programs – Department of Education
Status	Recurring (09-13). Corrective actions was taken during June 2010.

Finding 08-16

CFDA Number	10.555, 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Matching, Level of Effort, Earmarking, Period of Availability of Federal Funds
Amount of Questioned Costs	$6,257
Contact Person Responsible for Corrective Action Plan	Acting Director of Special Nutrition Programs – Department of Education
Status	Corrected

Finding 08-17

CFDA Number	10.555, 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Period of Availability of Federal Funds
Amount of Questioned Costs	$951,883
Contact Person Responsible for Corrective Action Plan	Acting Director of Special Nutrition Programs – Department of Education
Status	Corrected

Finding 08-18

CFDA Number	10.555, 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$207,356
Contact Person Responsible for Corrective Action Plan	Acting Director of Special Nutrition Programs – Department of Education
Status	Recurring (09-14). Corrective action was taken during March 2010.

Finding 08-19

CFDA Number	10.555, 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Acting Director of Special Nutrition Programs – Department of Education
Status	Corrected

Finding 08-20

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Type of Compliance Requirement	Period of Availability of Federal Funds
Amount of Questioned Costs	$4,016
Contact Person Responsible for Corrective Action Plan	Administrative Assistant and Director, WIC Program – Department of Health
Status	Corrected

Finding 08-21

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Administrative Assistant and Director, WIC Program – Department of Health
Status	Recurring (09-16)

Finding 08-22

CFDA Number	12.401
Federal Agency	U.S. Department of Defense – The Office of the Adjutant General
Name of Federal Program	National Guard Military Operation and Maintenance (O&M) Projects
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	$1,589,339
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Corrected

Finding 08-23

CFDA Number	12.401
Federal Agency	U.S. Department of Defense – The Office of the Adjutant General
Name of Federal Program	National Guard Military Operation and Maintenance (O&M) Projects
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	$131,487
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Recurring (09-18). Corrective action was taken during November 2009.

Finding 08-24

CFDA Number	12.401
Federal Agency	U.S. Department of Defense – The Office of the Adjutant General
Name of Federal Program	National Guard Military Operation and Maintenance (O&M) Projects
Type of Compliance Requirement	Matching, Level of Effort, Earmarking
Amount of Questioned Costs	$183,640
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Recurring (09-19)

Finding 08-25

CFDA Number	12.401
Federal Agency	U.S. Department of Defense – The Office of the Adjutant General
Name of Federal Program	National Guard Military Operation and Maintenance (O&M) Projects
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$24,046
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Corrected

Finding 08-26

CFDA Number	12.401
Federal Agency	U.S. Department of Defense – The Office of the Adjutant General
Name of Federal Program	National Guard Military Operation and Maintenance (O&M) Projects
Type of Compliance Requirement	Cash Management, Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Recurring (09-20). Corrective action was taken during March 2009.

Finding 08-27

CFDA Number	12.401
Federal Agency	U.S. Department of Defense – The Office of the Adjutant General
Name of Federal Program	National Guard Military Operation and Maintenance (O&M) Projects
Type of Compliance Requirement	Davis-Bacon Act
Amount of Questioned Costs	Unknown
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Corrected

Finding 08-28

CFDA Number	12.401
Federal Agency	U.S. Department of Defense – The Office of the Adjutant General
Name of Federal Program	National Guard Military Operation and Maintenance (O&M) Projects
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Corrected

Finding 08-29

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Department of Administration – Department of Labor
Status	Recurring (09-27). Corrective action was taken during March 2010.

Finding 08-30

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Recurring (09-25). Corrective action was taken during June 2011.

Finding 08-31

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Special Test and Provisions – Unemployment Insurance (UI) Benefits Payment
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Recurring (09-24). Corrective action was taken during September 2010.

Finding 08-32

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Special Test and Provisions – Match with IRS 940 FUTA Tax Form
Amount of Questioned Costs	
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Recurring (09-23)

Finding 08-33

CFDA Number	20.205
Federal Agency	U.S. Department of Transportation
Name of Federal Program	Highway Planning and Construction
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Deputy Commissioner of Administration and Assistant Director of Administration – Department of Public Works
Status	Recurring (09-31)

Finding 08-34

CFDA Number	20.205
Federal Agency	U.S. Department of Transportation
Name of Federal Program	Highway Planning and Construction
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	$3,800
Contact Person Responsible for Corrective Action Plan	Deputy Commissioner of Administration and Assistant Director of Administration – Department of Public Works
Status	Corrected

Finding 08-35

CFDA Number	66.468
Federal Agency	Environmental Protection Agency
Name of Federal Program	Capitalization Grants for Drinking Water State Revolving Reporting
Type of Compliance Requirement	
Amount of Questioned Costs	$83,112
Contact Person Responsible for Corrective Action Plan	Assistant Director, DBAS – Department of Planning and Natural Resources
Status	Corrected

Finding 08-36

CFDA Number	66.468
Federal Agency	Environmental Protection Agency
Name of Federal Program	Capitalization Grants for Drinking Water State Revolving Reporting
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Director, DBAS – Department of Planning and Natural Resources
Status	Corrected

Finding 08-37

CFDA Number	66.605
Federal Agency	Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Director, DBAS – Department of Planning and Natural Resources
Status	

Finding 08-38

CFDA Number	66.605
Federal Agency	Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability of Federal Funds
Amount of Questioned Costs	$500
Contact Person Responsible for Corrective Action Plan	Assistant Director, DBAS – Department of Planning and Natural Resources
Status	Corrected

Finding 08-39

CFDA Number	66.605
Federal Agency	Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	$5,557
Contact Person Responsible for Corrective Action Plan	Assistant Director, DBAS – Department of Planning and Natural Resources
Status	DPNR did not concur with this finding stating support was later provided for 8 out of 16 transactions listed in the finding.
Auditor's Conclusion	As detailed in the finding, the supporting documentation was not available for review within the performance of our audit or within a reasonable period originally agreed with DPNR.

Finding 08-40

CFDA Number	66.605
Federal Agency	Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Matching, Level of Effort, Earmarking, Period of Availability of Federal Funds
Amount of Questioned Costs	$6,615
Contact Person Responsible for Corrective Action Plan	Assistant Director, DBAS – Department of Planning and Natural Resources
Status	

Finding 08-41

CFDA Number	66.605
Federal Agency	Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Matching, Level of Effort, Earmarking
Amount of Questioned Costs	$818
Contact Person Responsible for Corrective Action Plan	Assistant Director, DBAS – Department of Planning and Natural Resources
Status	DPNR did not concur with this finding stating stating they understand the entire transaction should be re-visited.
Auditor's Conclusion	As stated in the finding, an unreconciled difference was noted and DPNR has not been able to reconcile these transactions.

Finding 08-42

CFDA Number	66.605
Federal Agency	Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Director, DBAS – Department of Planning and Natural Resources
Status	Corrected

Finding 08-43

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education – Grants to States (IDEA, Part B)
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal and Administrative Services – Department of Education
Status	Recurring (09-36)

Finding 08-44

CFDA Number	84.027
Federal Agency	U.S. Department of Education
Name of Federal Program	Special Education – Grants to States (IDEA, Part B)
Type of Compliance Requirement	Allowable Costs/Cost Principles
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal and Administrative Services – Department of Education
Status	Corrected

Finding 08-45

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	State Grants for Innovative Programs
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal and Administrative Services – Department of Education
Status	Recurring (09-35)

Finding 08-46

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	State Grants for Innovative Programs
Type of Compliance Requirement	Allowable Costs/Cost Principles
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal and Administrative Services – Department of Education
Status	Corrected

Finding 08-47

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	State Grants for Innovative Programs
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Assistant Commissioner, Fiscal and Administrative Services – Department of Education
Status	Corrected

Finding 08-48

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Temporary Assistance for Needy Families
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Recurring (09-38)

Finding 08-49

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Temporary Assistance for Needy Families
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Recurring (09-37)

Finding 08-50

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement Program
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support – Department of Justice
Status	Recurring (09-40). Corrective action was taken during January 2011.

Finding 08-51

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support – Department of Justice
Status	Recurring (09-41). Corrective action was taken during October 2010.

Finding 08-52

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement Program
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Director, Paternity and Child Support – Department of Justice
Status	Recurring (09-42). Corrective action was taken during January 2009.

Finding 08-53

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	Could not be determined.
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Recurring (09-50)

Finding 08-54

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Special Tests and Provisions – Utilization Control and Government Integrity
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Recurring (09-48)

Finding 08-55

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$7,248
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Recurring (09-51)

Finding 08-56

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Recurring (09-49)

Finding 08-57

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Special Tests and Provisions – ADP Risk Analysis and System Security Review
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services, BHIMA – Department of Health
Status	Recurring (09-53)

Finding 08-58

CFDA Number	97.067 and 97.073
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant Cluster
Type of Compliance Requirement	Period of Availability of Federal Funds
Amount of Questioned Costs	$245,406
Contact Person Responsible for Corrective Action Plan	Deputy Director of Grants Management - VITEMA
Status	Corrected

Finding 08-59

CFDA Number	97.067 and 97.073
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant Cluster
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Deputy Director of Operations/SAA – POC - VITEMA
Status	Recurring (09-55)

Finding 08-60

CFDA Number	97.067 and 97.073
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	N/A
Contact Person Responsible for Corrective Action Plan	Deputy Director of Grants Management - VITEMA
Status	Recurring (09-56)

Finding 07-13

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	SNAP Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Services
Status	Corrected

Finding 07-14

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	SNAP Cluster
Type of Compliance Requirement	Special Test and Provisions: ADP System for Food Stamps (Eligibility)
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Administrator of the Division of Family Assistance – Department of Human Services
Status	Corrected

Finding 07-15

CFDA Number	10.551, 10.561
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	SNAP Cluster
Type of Compliance Requirement	Matching, Level of Effort, Earmarking
Amount of Questioned Costs	$188,913
Contact Person Responsible for Corrective Action Plan	Administrator of the Division of Family Assistance – Department of Human Services
Status	Corrected

Finding 07-16

CFDA Number	10.555, 10.559
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Child Nutrition Cluster
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director, Child Nutrition Program and Director of Federal Grant and Audit – Department of Education
Status	Recurring (09-14). Corrective action was taken during March 2010.

Finding 07-17

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Special Tests and Provision: Compliance Investigation of High Risk Vendors.
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Corrected

Finding 07-18

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Recurring (09-17). Corrective action was taken during March 2010.

Finding 07-19

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Recurring (09-16)

Finding 07-20

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Corrected

Finding 07-21

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Special Test and Provisions: Food Instruments Disposition
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Corrected

Finding 07-22

CFDA Number	10.557
Federal Agency	U.S. Department of Agriculture
Name of Federal Program	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
Type of Compliance Requirement	Period of Availability of Federal Funds
Amount of Questioned Costs	$256
Contact Person Responsible for Corrective Action Plan	Director, WIC Program – Department of Health
Status	Corrected

Finding 07-23

CFDA Number	12.401
Federal Agency	U.S. Department of Defense
Name of Federal Program	National Guard Military Operations and Maintenance (O&M) Projects
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	$70,257
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Corrected

Finding 07-24

CFDA Number	12.401
Federal Agency	U.S. Department of Defense
Name of Federal Program	National Guard Military Operations and Maintenance (O&M) Projects
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director of Administration and Business Management – Office of the Adjutant General
Status	Recurring (09-18). Corrective action was taken during October 2009.

Finding 07-25

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	$43,640
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-26

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	$18,990
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-27

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Special Tests and Provisions: Required Certifications and HUD Approvals, Environmental Reviews, and Rehabilitation
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-28

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Subrecipient Monitoring
Amount of Questioned Costs	$53,700
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-29

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Matching, Level of Effort, Earmarking, Period of Availability of Federal Funds
Amount of Questioned Costs	$2,004,046
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-30

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-31

CFDA Number	14.218
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Name of Federal Program	Community Development Grant/Entitlement Program
Type of Compliance Requirement	Program Income
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Virgin Islands Housing and Finance Authority
Status	Corrected

Finding 07-32

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Recurring (09-25). Corrective action was taken during November 2009.

Finding 07-33

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Special Tests and Provisions: Unemployment Insurance (UI) Benefits Payment
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Recurring (09-24). Corrective action was taken during fiscal year 2010.

Finding 07-34

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director of Administration – Department of Labor
Status	Recurring (09-27). Corrective action was taken during October 2009.

Finding 07-35

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director of Administration – Department of Labor
Status	Recurring (09-25). Corrective action was taken during September 2010.

Finding 07-36

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Special Tests and Provisions: Employer Experience Rating
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Corrected

Finding 07-37

CFDA Number	17.225
Federal Agency	U.S. Department of Labor
Name of Federal Program	Unemployment Insurance
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	$9,069
Contact Person Responsible for Corrective Action Plan	Director of Unemployment Insurance and Director of Business Office – Department of Labor
Status	Corrected

Finding 07-38

CFDA Number	66.468
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Capitalization Grants for Drinking Water State Revolving Fund
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Reporting
Amount of Questioned Costs	$878,668
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	DPNR did not agree with the finding as it is DPNR understanding the difference pertained to unliquidated balances.
Auditor's Conclusion	As detailed in the finding, the referred supporting documentation was not available for review at the time of our audit.

Finding 07-39

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Matching, Level of Effort, Earmarking
Amount of Questioned Costs	$1,611
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	DPNR did not concur with this finding stating support was later provided for 8 out of 16 transactions listed in the finding.
Auditor's Conclusion	As detailed in the finding, the supporting documentation was not available for review within the performance of our audit or within a reasonable period originally agreed with DPNR.

Finding 07-40

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability of Federal Funds
Amount of Questioned Costs	$1,924
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	DPNR did not concur with this finding stating the information was later provided.
Auditor's Conclusion	As detailed in the finding, the supporting documentation was not available for review within the performance of our audit or within a reasonable period originally agreed with DPNR.

Finding 07-41

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	$7,180
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	Corrected

Finding 07-42

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Procurement and Suspension and Debarment
Amount of Questioned Costs	$30,295
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	DPNR did not concur with the finding, stating procurement process was properly followed.
Auditor's Conclusion	As stated in the finding, supporting evidence was not provided during the performance of our audit.

Finding 07-43

CFDA Number	66.605
Federal Agency	U.S. Environmental Protection Agency
Name of Federal Program	Performance Partnership Grant
Type of Compliance Requirement	Cash Management, Reporting
Amount of Questioned Costs	$56,232
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Planning and Natural Resources
Status	DPNR did not concur with the finding, stating the SF-269 and draws per ASAP may cover different periods.
Auditor's Conclusion	As stated in the finding, DPNR could not provide us with a reconciliation between 2007 expenditures reported in SF-269 and 2007 cash draws as per ASAP.

Finding 07-44

CFDA Number	84.298
Federal Agency	U.S. Department of Education
Name of Federal Program	State Grant for Innovative Program (Part A, Title V)
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Assistance Commissioner – Department of Education
Status	VIDE did not concur with this finding stating third-party did not report any exception on this matter and while not stamped documentation exists, there was no violation.
Auditor's Conclusion	As stated in our finding, the finding relates to lack of documentation evidencing internal controls, which was noted in VIDE response.

Finding 07-45

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Temporary Assistance for Needy Families (TANF)
Type of Compliance Requirement	Matching, Level of Effort, Earmarking
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Resources
Status	Corrected

Finding 07-46

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Temporary Assistance for Needy Families (TANF)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Chief Financial Officer – Department of Human Resources
Status	Corrected

Finding 07-47

CFDA Number	93.558
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Temporary Assistance for Needy Families (TANF)
Type of Compliance Requirement	Special Tests and Provisions: Income Eligibility and Verification System
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director of Jobs/TANF – Department of Human Services
Status	Recurring (09-39). Corrective action was taken during September 2010.

Finding 07-48

CFDA Number	93.563
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Child Support Enforcement
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Assistant Budget Control Officer, PCSD – Department of Justice
Status	Recurring (09-40). Corrective action was taken during fiscal year 2010.

Finding 07-49

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services – Department of Health
Status	Recurring (09-50)

Finding 07-50

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Eligibility
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services – Department of Health
Status	Corrected

Finding 07-51

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Special Tests and Provisions: Utilization Control and Program Integrity
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services – Department of Health
Status	Recurring (09-48)

Finding 07-52

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services – Department of Health
Status	Recurring (09-51). Corrective action was taken during fiscal year 2010.

Finding 07-53

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Matching, Level of Effort, Earmarking, Period of Availability of Federal Funds, Procurement and Suspension and Debarment
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services – Department of Health
Status	Corrected

Finding 07-54

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services – Department of Health
Status	Recurring (09-49)

Finding 07-55

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	$1,840,935
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services – Department of Health
Status	Corrected

Finding 07-56

CFDA Number	93.778
Federal Agency	U.S. Department of Health and Human Services
Name of Federal Program	Medical Assistance Program (Medicaid – Title XIX)
Type of Compliance Requirement	Special Test and Provisions: ADP Risk Analysis and System Security Review
Amount of Questioned Costs	Not applicable
Contact Person Responsible for Corrective Action Plan	Executive Director and Administrator of Fiscal Services – Department of Health
Status	Recurring (09-53)

Finding 07-57

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles
Amount of Questioned Costs	$63,042
Contact Person Responsible for Corrective Action Plan	Director – Office of Homeland Security; Director – VITEMA
Status	Corrected

Finding 07-58

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant
Type of Compliance Requirement	Activities Allowed or Unallowed, Allowable Costs/Cost Principles, Period of Availability of Federal Funds
Amount of Questioned Costs	$65,293
Contact Person Responsible for Corrective Action Plan	Director – Office of Homeland Security; Director – VITEMA
Status	The OAG did not concur with this finding, stating all transactions were properly supported.
Auditor's Conclusion	As stated in our finding, supporting documentation for listed transactions was not provided for review.

Finding 07-59

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant
Type of Compliance Requirement	Cash Management
Amount of Questioned Costs	$1,699,377
Contact Person Responsible for Corrective Action Plan	Director – Office of Homeland Security; Director – VITEMA
Status	Corrected

Finding 07-60

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant
Type of Compliance Requirement	Equipment and Real Property Management
Amount of Questioned Costs	Could not be determined
Contact Person Responsible for Corrective Action Plan	Director – Office of Homeland Security; Director – VITEMA
Status	Recurring (09-55)

Finding 07-61

CFDA Number	97.067
Federal Agency	U.S. Department of Homeland Security
Name of Federal Program	Homeland Security Grant
Type of Compliance Requirement	Reporting
Amount of Questioned Costs	None
Contact Person Responsible for Corrective Action Plan	Director – Office of Homeland Security; Director – VITEMA
Status	Corrected

Finding 07-62

CFDA Number	10.551, 10.561, 10.555, 10.559, 10.557, 14.218, 17.225, 66.468, 66.605, 93.558, 93.563
Federal Agency	U.S. Department of Agriculture; U.S. Department of Housing and Urban Development (HUD); U.S. Department of Labor; U.S. Environmental Protection Agency; U.S. Department of Health and Human Services
Name of Federal Program	Child Nutrition Cluster; Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); Community Development Block Grant/Entitlement Program; Unemployment Insurance; Capitalization Grants for Drinking Water State Revolving Fund; Performance Partnership Grant; Temporary Assistance for Needy Families (TANF); Child Support Enforcement
Type of Compliance Requirement	Allowable Costs/Cost Principles
Amount of Questioned Costs	$1,241,377
Contact Person Responsible for Corrective Action Plan	Associate Director and Deputy Director, FGMU – Office of Management and Budget
Status	OMB did not concur with this finding, stating time and clarification were needed in order for them to provide supporting documentation.
Auditor's Conclusion	As stated in our finding, supporting documentation was not available for review at the time of our audit.

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