



**VIRGIN ISLANDS
PUBLIC FINANCE AUTHORITY**

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

**Management's Discussion and Analysis,
Basic Financial Statements and
Supplementary Information
September 30, 2010 and 2009**

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(a blended component of the Government of the United States Virgin Islands)
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September 30, 2010 and 2009

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Report of Independent Auditors

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

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses and changes in net assets, and of cash flows (collectively "the basic financial statements") present fairly, in all material respects, the financial position of The Virgin Islands Public Finance Authority (a blended component of The Government of the United States Virgin Islands) (the "Authority") at September 30, 2010 and 2009 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

The management's discussion and analysis on pages 2 through 8 are not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The Supplementary Information as of September 30, 2010 and for the year then ended are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

August 31, 2011

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2013
Stamp 2617570 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY

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

Management's Discussion and Analysis

September 30, 2010 and 2009

The Management and Board of Directors of the Virgin Islands Public Finance Authority (the "Authority") are pleased to present the following discussion and analysis of the Authority's financial performance for the fiscal years ended September 30, 2010 and 2009.

Please read this information in conjunction with the Authority's financial statements, which begin on page 9.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Virgin Islands Public Finance Authority (the "Authority"), a blended component of the Government of the U.S. Virgin Islands, was created by the Virgin Islands Act No. 5365 (the "Act"), "The Government Capital Improvement Act of 1988", for the purposes of aiding the Government of the Virgin Islands (the "Government") in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. The Authority engages in business-type activities, grant management, and investment and debt service fund administration on behalf of the Government.

Under the Authority's investment and debt service fund administration, the Authority issues debt instruments (mainly bonds and notes) and loans the proceeds to the Government of the Virgin Islands under the same terms of the debt source. The proceeds from debt issuances are also managed by the Authority on behalf of the Government of the Virgin Islands. These management activities consist of investing the proceeds in permitted investments, managing the debt service reserves, making payments for capital projects for the benefit of the residents of the Virgin Islands and receiving pledged revenues for the timely payment of principal and interest. Since the Authority holds the bond proceeds, disbursements on behalf of the Government of the Virgin Islands are recorded as reductions in the amounts due to the Government of the Virgin Islands in the balance sheet and are presented in the statement of cash flows as payments on behalf of the Government of the Virgin Islands.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, and Notes to the Financial Statements presented on pages 9 through 45 provide information about the activities of the Authority as a whole.

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

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FINANCIAL HIGHLIGHTS

Following is a condensed financial information of the Authority for years 2010, 2009, and 2008:

| | (in thousands) | | |
|--|------------------|-------------------|-------------------|
| | 2010 | 2009 | 2008 |
| Condensed information from Statement of Net Assets | | | |
| Current assets | \$ 425,002 | \$ 432,111 | \$ 282,641 |
| Non-current assets excluding capital assets | 1,901,432 | 1,453,550 | 1,120,946 |
| Capital assets (net of depreciation) | 47,399 | 50,256 | 49,350 |
| Total assets | <u>2,373,833</u> | <u>1,935,917</u> | <u>1,452,937</u> |
| Current liabilities | 76,114 | 81,485 | 70,531 |
| Long-term portion of bonds outstanding | 1,746,890 | 1,252,036 | 1,034,553 |
| Other Liabilities | 492,888 | 545,771 | 288,030 |
| Total liabilities | <u>2,315,892</u> | <u>1,879,292</u> | <u>1,393,114</u> |
| Net Assets | | | |
| Invested in capital assets, net of debt | 26,499 | 28,847 | 27,668 |
| Restricted | 16,120 | 27,316 | 27,183 |
| Unrestricted | 15,322 | 462 | 4,972 |
| Total net assets | <u>\$ 57,941</u> | <u>\$ 56,625</u> | <u>\$ 59,823</u> |
| Condensed information from Statement of Revenue, Expenses and Changes in Net Assets | | | |
| Operating revenues | 18,264 | 12,534 | 10,652 |
| Operating expenses | <u>(17,013)</u> | <u>(16,514)</u> | <u>(17,351)</u> |
| Operating income (loss) | 1,251 | (3,980) | (6,699) |
| Non-operating income and other changes in net assets | 64 | 782 | 1,357 |
| Change in net assets | <u>\$ 1,315</u> | <u>\$ (3,198)</u> | <u>\$ (5,342)</u> |

Non-current assets, excluding capital assets, increased by \$448 million in 2010 and increased by \$333 million in 2009 mainly due to new bonds issued.

Capital assets decreased by \$2.9 million in 2010 which is due to write-offs of capitalized projects and depreciation expense recorded during the fiscal year. The increase of \$906 thousand from 2008 to 2009 is mainly due the improvements in the Authority's two commercial complexes.

Long-term portion of bonds outstanding increased by \$495 million in 2010 mainly due to the net effect of the issuance of the Series 2010 A & B Revenue bonds in the amount of \$399 million, issuance of the Series 2009 "Cruzan" bonds in the amount of \$39 million, issuance of 2009 Revenue & Refunding bonds in the amount of \$459 million (which currently refunded \$377 million of the 1998 Series bonds), and repayments of debt service principal due on October 1, 2009 in the amount of \$33 million. Increases in 2009 of \$217 million were mainly due to the net effect of the issuance of the Series 2009 A Revenue bonds in the amount of \$250 million and repayments of debt service principal due on October 1, 2008 in the amount of \$35 million.

The net assets of the Authority increased by \$1.3 million during fiscal year 2010 (decreased by \$3.2 million in 2009). The increase in 2010 is mainly due to proceeds of bond issuances. The decrease

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in 2009 is mainly due to payments made by the Authority on behalf of the Government of the Virgin Islands.

In 2010, operating revenues experienced an increase of \$5.7 million which is mainly due to the management fees received in connection with the bonds and notes issued during the current fiscal year in the amount of \$6.8 million. In 2009, operating revenues experienced an increase of \$1.9 million mainly due to the management fees received in connection with the bond and notes issued during the 2009 fiscal year in the amount of \$3.5 million.

Business type-activities

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

Following is condensed financial information for WICO and King's Alley for the years ended 2010, 2009, and 2008:

| | WICO | | | King's Alley | | |
|---------------------------------|----------------|------------|-----------|--------------|----------|----------|
| | (In thousands) | | | | | |
| | 2010 | 2009 | 2008 | 2010 | 2009 | 2008 |
| Operating revenues | \$ 8,187 | \$ 8,338 | \$ 10,072 | \$ 614 | \$ 639 | \$ 502 |
| Operating expenses | (8,451) | (8,390) | (9,031) | (1,111) | (937) | (888) |
| Operating income (loss) | (264) | (52) | 1,041 | (497) | (298) | (386) |
| Nonoperating revenues | 699 | 118 | 147 | 2 | 2 | 6 |
| Nonoperating expenses | (3,730) | (2,180) | (1,484) | | (253) | - |
| Loss before interfund transfers | (3,295) | (2,114) | (296) | (495) | (549) | (380) |
| Interfund transfers | - | - | - | | | 201 |
| Change in net assets | \$ (3,295) | \$ (2,114) | \$ (296) | \$ (495) | \$ (549) | \$ (179) |

WICO's operating revenues consist of agency fees charged to cruise lines and rental income. During fiscal year 2010, the decrease in operating revenues is mainly driven by a reduction in the rental income generated from two tenants (The Butterfly Farm and Paradisegate) whose operations closed during the fiscal year 2010 as a result of the economic downturn. During fiscal year 2009, the decrease in income is due to a decrease in passenger arrivals from 1,754,557 in 2008 to 1,507,623 in 2009.

King's Alley operating loss of \$495 thousand is mainly due to depreciation of \$521 thousand.

Over the last three years The West Indian Company (WICO) operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and also by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Ports Authority. This situation is compounded by a minimum contribution in lieu of taxes of \$700,000, regardless of the operating results. These situations have resulted in reductions in revenues and operating income, leading to an operating loss of approximately \$264,000 in fiscal year 2010, as well as

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decreases in working capital (current assets less current liabilities) to approximately \$482,000 and a deficit in unrestricted net assets of approximately \$775,000. As a consequence, WICO did not comply, as of September 30 2010 and for the year then ended, with loan covenant requirement minimum operating revenue thresholds. At September 30, 2010, WICO did comply with the debt service reserve requirement of its loan agreement, which requires that it set aside sufficient cash for the following year's debt service requirements. WICO also had positive operating cash flow during fiscal year 2010. WICO requested and the Bank granted a waiver over the failure to comply with the minimum operating revenue for fiscal year 2010. The waiver was granted on May 13, 2011.

Grant Administration

The Office of Economic Opportunity (formed in June 2009) is a wholly owned subsidiary of the Authority responsible for oversight of the activities attributable to American Recovery and Reinvestment Act of 2009 (ARRA).

Following is condensed financial information for OEO for the years ended 2010, 2009, and 2008:

| | Office of Economic Opportunity (In thousands) | | |
|---|--|----------|------|
| | 2010 | 2009 | 2008 |
| Operating revenues | \$ - | \$ - | \$ - |
| Operating expenses | (622) | - | - |
| Operating loss | (622) | - | - |
| Nonoperating Revenues - Federal Grant Revenue | 2,055 | - | - |
| Nonoperating Expenses | - | - | - |
| Income before payments on behalf of the USVI and grants | 1,433 | - | - |
| Payments on behalf of U.S. Government of the Virgin Islands | (37) | (350) | - |
| Federal grant expenditures | (2,052) | - | - |
| Change in net assets | \$ (656) | \$ (350) | \$ - |

OEO's 2010 grant awards amounted to \$2.1 million. Operating expenses of \$622 thousand consisted of grant expenditures not covered by grant guidelines or made as part of award matching requirements.

Broadband Initiative - viNGN

During the current year the Authority formed the Virgin Islands Next Generation Network (viNGN) to manage and provide oversight to ARRA awards related to the development of a broadband network across the territory.

There was no financial activity under viNGN in 2010.

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Investment Administration

During the current year, the Authority (i) managed the assets of all its bond series, (ii) note series, and (iii) defeased bond series.

Investments under management for fiscal years 2010, 2009, and 2008 were as follows:

| Restricted Cash and Investments (in thousands) | | | |
|---|-------------------|-------------------|-------------------|
| | 2010 | 2009 | 2008 |
| Bonds and notes series | \$ 455,097 | \$ 459,604 | \$ 302,665 |
| Defeased bond series | 45,104 | 1,127 | 3,633 |
| | <u>500,201</u> | <u>460,731</u> | <u>306,298</u> |
| Investments under management | 1,917 | 6,432 | 5,480 |
| Other restricted cash, cash equivalents and investments | <u>\$ 502,118</u> | <u>\$ 467,163</u> | <u>\$ 311,778</u> |

Debt Administration

At year end, the Authority had approximately \$1.8 billion in bonds outstanding as follows:

| | Bonds Outstanding 9/30/2008 | (in thousands) New Issuances Debt Payments | | Bonds Outstanding 9/30/2009 | (in thousands) New Issuances Debt Payments | | Refunded | Bonds Outstanding 9/30/2010 |
|----------------------|-----------------------------------|--|--------------------|-----------------------------------|--|--------------------|---------------------|-----------------------------------|
| 2010 Series | \$ - | \$ - | \$ - | \$ - | \$ 399,050 | \$ - | \$ - | \$ 399,050 |
| 2009 Series "Cruzan" | - | - | - | - | 39,190 | - | - | 39,190 |
| 2009 Series "R&R" | - | - | - | - | 458,840 | - | - | 458,840 |
| 2009 Series "Diageo" | - | 250,000 | - | 250,000 | - | - | - | 250,000 |
| 2006 Series | 218,985 | - | (1,490) | 217,495 | - | (1,530) | - | 215,965 |
| 2004 Series | 85,595 | - | (3,285) | 82,310 | - | (3,450) | - | 78,860 |
| 2003 Series | 259,045 | - | (3,230) | 255,815 | - | (3,360) | - | 252,455 |
| 2002 Series | 3,475 | - | (3,475) | - | - | - | - | - |
| 1999 Series | 99,825 | - | (5,900) | 93,925 | - | (6,230) | - | 87,695 |
| 1998 Series | 412,875 | - | (17,370) | 395,505 | - | (18,480) | (377,025) | - |
| Total | <u>\$ 1,079,800</u> | <u>\$ 250,000</u> | <u>\$ (34,750)</u> | <u>\$ 1,295,050</u> | <u>\$ 897,080</u> | <u>\$ (33,050)</u> | <u>\$ (377,025)</u> | <u>\$ 1,782,055</u> |

In July 2010, the Authority issued the 2010 Series A & B Bonds. The proceeds were loaned to the Government of the Virgin Islands to provide financing of various operating expenses and to refinance a portion of the outstanding Series 2009 B1 & B2 Notes, (see Note 6).

In December 2009, the Authority issued the Series 2009A "Cruzan" Bonds. The proceeds were used to finance cost of development, acquisition, construction and installation of a wastewater treatment facility and to fund renovation & expansion of the Cruzan distillery on St Croix, (see Note 6).

In October 2009, the Authority issued the Series 2009A-1, Series 2009A-2, Series 2009B and Series 2009C Revenue and Refunding Bonds. The proceeds were loaned to the Government of the Virgin Islands to provide financing for various capital projects and to current refund the Series 1998A & E Revenue and Refunding Bonds, (see Note 6).

At September 30, 2010, defeased bonds outstanding from prior years amounted to \$162.9 million (1999 Series) (\$162.9 million in 2009), \$118.7 million (1989 Series) (\$121.2 million in 2009) and \$121.9 million (1994 and 1992 Series) (\$125.4 million in 2009).

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Loans outstanding were as follows:

| | Loans (in thousands) | | | Loans (in thousands) | | | Loans |
|-----------------------------|-------------------------|------------|-------------|-------------------------|------------|--------------|-------------|
| | Outstanding | New | Debt | Outstanding | New | Debt | Outstanding |
| | 9/30/2008 | Issuances | Payments | 9/30/2009 | Issuances | Payments | 9/30/2010 |
| 2009 BAN B1 & B2 | \$ - | \$ 100,000 | \$ - | \$ 100,000 | \$ 106,400 | \$ (200,000) | \$ 6,400 |
| 2009A TIR BAN | - | 6,032 | - | 6,032 | 4,000 | - | 10,032 |
| 2009A Diageo BAN | - | 29,615 | (29,615) | - | - | - | - |
| 2009 A Revenue Loan Note | - | 8,000 | - | 8,000 | - | (708) | 7,292 |
| 2008 VIPD Note | 7,442 | - | (2,436) | 5,006 | - | (2,556) | 2,450 |
| 2006 VIFD Note | 1,403 | - | (1,403) | - | - | - | - |
| WICO | 23,557 | 564 | (607) | 23,514 | - | (605) | 22,909 |
| Total | \$ 32,402 | \$ 144,211 | \$ (34,061) | \$ 142,552 | \$ 110,400 | \$ (203,869) | \$ 49,083 |

In September 2009, the Authority issued the 2009 B1 & B2 Working Capital Bond Anticipation Notes creating credit facilities with two local banks. The purpose of the notes is to provide a loan to the Government of the Virgin Islands to finance certain operating expenses of the Government. The Authority made three draws during fiscal year 2010 amounting to \$106.4 million in total, and then used the proceeds of the 2010 Series A & B bonds to repay a portion of the loan (see Note 8).

In September 2009, the Authority issued the 2009 Tax Increment Revenue Bond Anticipation Note to provide a loan to the Government of the Virgin Islands to finance the development of a shopping complex on the island of St. Croix. The Authority made one draw during fiscal year 2010 of \$4 million (see Note 8).

In June 2009, the Authority issued the 2009 Diageo Bond Anticipation Notes to provide a loan to the Government of the Virgin Islands for the start-up costs associated with the construction of a state-of-the-art rum distillery and storage facility (see Note 8).

In February 2009, the Authority issued the 2009A Revenue Loan Note to finance the purchase and installation of 911 communication equipment for the Virgin Islands Police Department (see Note 8).

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

Tax Collections

Bonds and notes issued by the Authority are supported by pledged rum excise tax revenues and gross receipts tax revenues as more fully described in Note 6 of the accompanying financial statements. Rum excise taxes are Federal excise tax collections from rum which are returned to the Government of the Virgin Islands from the Federal Government. Rum production occurs at one private facility. Gross receipts tax revenues are a tax on gross professional services and sales. Debt service payments of principal and interest from these revenue sources for the past three years are as follows:

| | Year ending September 30, | | |
|---------------------|---------------------------|-------------|-------------|
| | <u>2010</u> | <u>2009</u> | <u>2008</u> |
| | (in thousands) | | |
| Excise rum tax: | \$ 71,262 | \$ 50,804 | \$ 48,238 |
| Gross receipts tax: | \$ 50,345 | \$ 44,390 | \$ 42,220 |

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

Investment Performance and Agreements

The Authority investments include Aaa rated money market funds and commercial securities. Due to declining interest returns, the Authority entered into three debt service agreements with Morgan Stanley Capital Services, Inc., during fiscal year 2002. The agreement was amended in October 2009, and revised in April 2010, to redefine the bond series guaranteed as a result of the 1998 debt refunding. The terms of the agreements provide a guaranteed return in exchange for the guaranty of Authority debt service reserves. The Authority received \$1.6 million in fees upon entering into the agreements and a guaranteed average rate of return of 5% to 6% on investments subject to the agreements.

Contacting the Authority

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

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Statements of Net Assets
September 30, 2010 and 2009

| | 2010 | 2009 |
|--|-------------------------|-------------------------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 36,192,164 | \$ 30,711,458 |
| Restricted cash and cash equivalents | 79,695,036 | 76,796,836 |
| Restricted investments, at fair value | 260,868,050 | 277,223,305 |
| Receivables, net | 982,662 | 1,158,292 |
| Restricted loans receivable - Government of the U. S. Virgin Islands | 46,474,228 | 45,336,255 |
| Prepaid expenses and other assets | 790,039 | 885,194 |
| Total current assets | <u>425,002,179</u> | <u>432,111,340</u> |
| Noncurrent assets | | |
| Restricted investments, at fair value | 161,554,378 | 113,142,658 |
| Restricted loans receivable - Government of the U. S. Virgin Islands | 1,737,464,547 | 1,335,701,122 |
| Bond discounts and issuance costs | 2,413,081 | 4,705,752 |
| Capital assets, net of depreciation | 47,399,235 | 50,256,415 |
| Total non-current assets | <u>1,948,831,241</u> | <u>1,503,805,947</u> |
| Total assets | <u>\$ 2,373,833,420</u> | <u>\$ 1,935,917,287</u> |
| LIABILITIES | | |
| Current liabilities | | |
| Accrued expenses and other liabilities | \$ 5,821,081 | \$ 5,093,939 |
| Loans payable related to capital assets | 658,541 | 606,098 |
| Notes payable | 3,922,700 | 10,556,255 |
| Deferred revenue | 47,576 | 193,716 |
| Bonds payable | 24,290,000 | 33,050,000 |
| Interest payable | 41,373,713 | 31,985,043 |
| Total current liabilities | <u>76,113,611</u> | <u>81,485,051</u> |
| Non-current liabilities | | |
| Loans payable related to capital assets | 22,250,250 | 22,908,792 |
| Notes payable | 22,251,075 | 108,481,122 |
| Bonds payable (including a reduction of \$10,874,521 and \$9,964,039 in 2010 and 2009, respectively, due to deferred amounts on defeased and refunded bonds) | 1,746,890,479 | 1,252,035,961 |
| Due to Government of the U.S. Virgin Islands - construction funds | 246,793,083 | 271,212,273 |
| Due to Government of the U.S. Virgin Islands - debt service funds | 201,594,302 | 143,168,837 |
| Total non-current liabilities | <u>2,239,779,189</u> | <u>1,797,806,985</u> |
| Total liabilities | <u>2,315,892,800</u> | <u>1,879,292,036</u> |
| NET ASSETS | | |
| Invested in capital assets, net of related debt | 26,499,073 | 28,846,908 |
| Restricted | 16,119,995 | 27,316,460 |
| Unrestricted | 15,321,552 | 461,883 |
| Total net assets | <u>\$ 57,940,620</u> | <u>\$ 56,625,251</u> |

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Statements of Revenues, Expenses and Changes in Net Assets
Years ended September 30, 2010 and 2009

| | 2010 | 2009 |
|--|----------------------|-----------------------|
| OPERATING REVENUES | | |
| Charges for services | \$ 8,800,819 | \$ 8,976,311 |
| Other operating revenues | 9,463,350 | 3,557,355 |
| Total operating revenues | <u>18,264,169</u> | <u>12,533,666</u> |
| OPERATING EXPENSES | | |
| General and administrative | 14,586,395 | 14,209,338 |
| Depreciation | 2,426,348 | 2,305,033 |
| Total operating expenses | <u>17,012,743</u> | <u>16,514,371</u> |
| Operating income (loss) | <u>\$ 1,251,426</u> | <u>\$ (3,980,705)</u> |
| NONOPERATING REVENUES (EXPENSES) | | |
| Interest income | | |
| Cash, cash equivalents and investments | \$ 5,549,255 | \$ 5,833,503 |
| Loans receivable | 85,779,723 | 60,263,831 |
| Other investment income | 193,716 | 193,714 |
| Budgetary allocation | 3,500,000 | 3,500,000 |
| Federal grants | 2,691,974 | - |
| Amortization of bond discount and issuance costs | (3,970,822) | (2,546,516) |
| Amortization of deferred amount | (894,110) | (532,884) |
| Interest expense | (87,354,671) | (61,743,403) |
| Gain on sale of fixed assets | 4,336 | (237,727) |
| Impairment of capital assets | (1,454,845) | - |
| Contribution to the USVI Government | (700,000) | (700,000) |
| Total non-operating income | <u>3,344,556</u> | <u>4,030,518</u> |
| Income before payments on behalf of the USVI and grants | <u>4,595,982</u> | <u>49,813</u> |
| Payments on behalf of Government of the U.S. Virgin Islands | (1,228,204) | (3,247,639) |
| Federal grant expenditures | <u>(2,052,409)</u> | <u>-</u> |
| Change in net assets | 1,315,369 | (3,197,826) |
| Total net assets at beginning of fiscal year | <u>56,625,251</u> | <u>59,823,077</u> |
| Total net assets at end of fiscal year | <u>\$ 57,940,620</u> | <u>\$ 56,625,251</u> |

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

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Statements of Cash Flows
Years ended September 30, 2010 and 2009

| | 2010 | 2009 |
|--|-----------------------|-----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Cash received from customers | \$ 8,675,868 | \$ 10,358,558 |
| Cash paid to suppliers and employees for services | (14,245,764) | (13,699,655) |
| Other cash receipts | 9,463,350 | 3,557,355 |
| Net cash provided by operating activities | <u>3,893,454</u> | <u>216,258</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Purchases of investments | (846,370,808) | (945,849,558) |
| Interest received on cash, cash equivalents and investments | 8,057,972 | 6,898,029 |
| Investment maturities and sales | 814,314,343 | 793,496,202 |
| Net cash used in investing activities | <u>(23,998,493)</u> | <u>(145,455,327)</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Proceeds from the sale of property and equipment | 4,336 | 15,000 |
| Acquisition of property and equipment | (1,024,013) | (3,049,910) |
| Proceeds from insurance claims | - | 150,000 |
| Interest payment on long-term debt related to capital assets | (1,460,089) | (1,479,572) |
| Principal payments on loans payable related to capital assets | (606,099) | (586,619) |
| Net cash used in capital and related financing activities | <u>(3,085,865)</u> | <u>(4,951,101)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | | |
| Funds received for debt service | 188,184,053 | 151,159,468 |
| Proceeds from issuance of bonds and notes payable | 1,025,813,075 | 391,140,545 |
| Budgetary allocation | 3,500,000 | 3,500,000 |
| Interest paid on bonds and notes payable | (72,212,256) | (56,708,051) |
| Federal grants | 2,739,550 | - |
| Payment of issuance costs | (19,145,077) | (10,608,261) |
| Contribution to the Government of the U.S. Virgin Islands | (200,000) | - |
| Transfer to the Government of the U.S. Virgin Islands | (1,228,203) | (3,247,639) |
| Principal payments on bonds and notes payable | (233,757,542) | (65,993,087) |
| Defeasance of 1998 bonds | (377,025,000) | - |
| Payments on behalf of Government of the U.S. Virgin Islands | (483,046,381) | (251,962,857) |
| Federal grant expenditures | (2,052,409) | - |
| Net cash provided by non-capital financing activities | <u>31,569,810</u> | <u>157,280,118</u> |
| Net increase in cash, cash equivalents and restricted cash | 8,378,906 | 7,089,948 |
| Cash, cash equivalents and restricted cash at beginning of fiscal year | 107,508,294 | 100,418,346 |
| Cash, cash equivalents and restricted cash at end of fiscal year | <u>\$ 115,887,200</u> | <u>\$ 107,508,294</u> |

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the United States Virgin Islands)
Statements of Cash Flows
Years ended September 30, 2010 and 2009

| | 2010 | 2009 |
|--|--------------|----------------|
| Reconciliation of operating income (loss) to net cash provided by operating activities | | |
| Operating income (loss) | \$ 1,251,426 | \$ (3,980,705) |
| Adjustments to reconcile changes in net assets to net cash provided by operating activities: | | |
| Depreciation | 2,426,348 | 2,305,033 |
| Changes in operating assets and liabilities that increase (decrease) cash | | |
| Receivables | (124,951) | 1,382,247 |
| Accrued expenses and other liabilities | 245,476 | 598,911 |
| Prepaid expenses and other assets | 95,155 | (89,228) |
| Total adjustments | 2,642,028 | 4,196,963 |
| Net cash provided by operating activities | \$ 3,893,454 | \$ 216,258 |
| Supplemental information of non-cash investing and non-capital financing activities | | |
| Notes paid on behalf of the Authority by the Government of the U.S. Virgin Islands | \$ 2,556,060 | \$ 2,211,485 |
| Acquisition of equipment under capital leases | \$ - | \$ 564,460 |

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Notes to Financial Statements
September 30, 2010 and 2009

1. Reporting Entity and Significant Accounting Policies

Reporting Entity

The Virgin Islands Public Finance Authority (the "Authority"), a blended component of the Government of the US Virgin Islands, was created by the Virgin Islands Act No. 5365 (the "Act"), "The Government Capital Improvement Act of 1988", for the purposes of aiding the Government of the Virgin Islands (the "Government") in the performance of its fiscal duties and in effectively carrying out its governmental responsibility of raising capital for essential public projects. Under the enabling legislation, the Authority is vested with, but not limited to, the following powers: (i) to have perpetual existence as a corporation, (ii) to borrow money and issue bonds, (iii) to lend the proceeds of its bonds or other money to the Government or any agency, authority or instrumentality thereof, and to private entities, (iv) to establish one or more revolving loan funds with the proceeds of bonds issued by the Authority or issued by the Government or any agency, authority or instrumentality thereof and, (v) to invest its funds and to arrange for the investment of the funds of the Government or any agency, authority or instrumentality thereof. Pursuant to Section 8(b)(i) of the Revised Organic Act, the Government may issue revenue bonds for public improvements or undertakings authorized by an act of the Legislature, without limitation as to principal amount. The Authority also provides property management services as discussed further below under Activities of the Authority.

General Obligation Bonds

Pursuant to Section 8(b)(ii) of the Revised Organic Act, the Government is authorized to issue general obligation bonds for any public purpose provided that no such indebtedness be in excess of ten (10%) of the aggregate assessed valuation of the taxable real property in the U.S. Virgin Islands. Pursuant to 48 U.S.C. section 1574a (Public Law 94-932), the U.S. Virgin Islands is authorized to issue bonds or other obligations in anticipation of the matching funds to be received from the Federal Government pursuant to 26 U.S.C. section 7652 (b) (3). There is no legal limit on the value of bonds that the Government may issue pursuant to 48 U.S.C. section 1574a.

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

Use of Estimates

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

Basis of Presentation and Accounting

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
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Notes to Financial Statements
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Reporting Entity and Significant Accounting Policies (*continued*)

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

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

Statement of Cash Flows

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

Activities of the Authority

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

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

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

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

Office of Economic Opportunity: Oversight of the activities attributable to the American Recovery and Reinvestment Act of 2009 (ARRA) formed on June 12, 2009.

Virgin Islands Next Generation Network (viNGN): Operating entity in connection with the broadband expansion project formed on March 8, 2010, a wholly-owned subsidiary of the Authority.

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Reporting Entity and Significant Accounting Policies (*continued*)

Cash and cash equivalents

Cash and cash equivalents of the Authority consist of demand accounts, certificates of deposits with maturities of three months or less when purchased, short-term US Government and its agencies obligations maturing within three months and collateralized by US government obligations.

By law, bank and trust companies designated as depository of public funds of the Government of the U.S. Virgin Islands and its instrumentalities are to maintain corporate surety bonds or pledge collateral satisfactory to the Commissioner of Finance of the U.S. Virgin Islands to secure all governmental funds deposited.

Receivables

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

Investments

Under GASB Statement 31, *Accounting and Financial Reporting for Certain Investments and for Most External Investments Pools*, the Authority reports investments at fair value in the statement of net assets and changes in the fair value in the statement of revenues, expenses and changes in net assets. Investments are restricted by various bond resolutions of the Authority and the Act, generally, to direct obligations of the U.S. Government, the U.S. Virgin Islands, or any state, territory, possession or Commonwealth of the United States, specific bank obligations, investment agreements or similar funding agreements, shares or other interests in mutual funds, trusts or investment companies, corporate commercial paper, and money market portfolios consisting of any of the foregoing. The Authority has retained investment managers and investments are held in trust by a commercial bank on behalf of the Authority.

Under GASB Statement No. 40, *Deposit and Investment Risk Disclosures—an amendment of GASB Statement No. 3*, common deposits and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk require certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. The disclosures required by this statement are included in Note 3.

Bonds Payable

Bonds payable managed by the Authority are as follows:

Series 2010 A and B Revenue Bonds: The proceeds of the bonds were issued to finance working capital requirements of certain operating expenses and other obligations of the Government, to refinance a portion of the B1 and B2 Bond Anticipation Notes, to establish debt service reserves, and to finance costs of issuance of the 2010 A and B Bonds.

Series 2009 A Revenue Bonds (Cruzan): The proceeds of the bonds were issued to finance the costs of the development, acquisition, construction and installation of a wastewater treatment facility and to fund certain preliminary costs of the alteration, upgrade, expansion and renovation of

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Reporting Entity and Significant Accounting Policies (*continued*)

the Cruzan distillery on St. Croix., to establish debt service reserves, and to finance costs of issuance of the 2009A Bonds.

Series 2009 A1, A2, B and C Revenue and Refunding Bonds: The proceeds of the bonds were issued to (i) finance various capital projects of the Government, (ii) establish debt service reserves, (iii) finance costs of issuance of the Series Bonds, and (iv) current refund a portion of the Authority's Series 1998 Revenue Bonds.

Series 2009 A Revenue Bonds (Diageo): The proceeds of the bonds were issued to: (i) make a loan to the Government of the Virgin Islands to provide a grant to Diageo USVI Inc. to finance the costs of the acquisition, design, development, construction and equipping of a rum production and maturation warehouse facility to be located on St. Croix, (ii) pay in full the principal and interest due on the Subordinated Revenue Bond Anticipation Notes, Series 2009 A, (iii) pay capitalized interest on the Series 2009 A Bonds, (iv) fund the Series 2009 A Senior Lien Debt Service Reserve Subaccount, and (v) pay the costs of issuing the Series 2009 A Bonds.

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

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

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

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

Payments on Behalf of the Government of the Virgin Islands

Payments on behalf of the Government of the Virgin Islands include distributions from excess revenues of tax collections (pledged funds), Transfer of the proceeds of the 2009 BAN B1 & B2 and payment for capital projects.

During the fiscal year ended September 30, 2010, capital expenditures of \$25.3 million, \$9.6 million, \$4.5 million and \$8.1 million were disbursed from the restricted investments related to the Series 2009 A1 & A2, Series 2006 Bonds, Series 2004 and Series 2003 Bonds, respectively. Also,

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Reporting Entity and Significant Accounting Policies (continued)

project expenditures of \$2.1 million, \$1.4 million and \$188 thousand were disbursed from the restricted investments related to the 2009 TIF BAN Notes, 2009A 911 Note and 2008 VIPD Note, respectively. The disbursements are reported as a reduction of Restricted Assets held for the Government of the U.S. Virgin Islands in the statement of net assets and as payments on behalf of the U.S. Government of the Virgin Islands in the statement of cash flows.

During the fiscal year ended September 30, 2010, there was \$515 thousand capital expenditures disbursed from the restricted investments related to the 1992 Revenue bonds. The disbursements are recorded as payments on behalf of the Government in the statement of revenues, expenses and changes in net assets.

During the fiscal year ended September 30, 2010, the Authority made reimbursable expenditures of \$2,052,409 from Federal awards (see note 9).

During the fiscal year ended September 30, 2010, the Authority charged the Government of the Virgin Islands fees amounting to \$6.8 million for its investment and bond management services. During fiscal years 2010 and 2009, the Authority charged \$75,000 annually to the Tobacco Settlement Financing Corporation for investment and management services.

Taxes

The Authority is a tax-exempt entity created by statute. The Authority shall not be required to pay any taxes or assessments on any of the property acquired or to be acquired by it, or on any of its operations or activities, or on any income derived from any of its operations or activities. However, Prior to June 2003, WICO was required, under a specific bill, to contribute the greater of ten percent of net revenues, or \$500,000 to the General Fund of the Government of the Virgin Islands. In June 2003, the Legislature approved and amended the annual payment in lieu of taxes to the greater of ten percent of net revenues, as defined or \$1,000,000. On October 10, 2007, the legislature decreased the annual in lieu of tax payment to \$700,000 retroactive to fiscal year 2006 and thereafter.

Capital Assets

Capital assets are recorded at cost and depreciated using the straight-line method over the estimated useful life of the assets. The capitalization threshold for capital assets is \$5,000. Estimated useful lives of capital assets are as follows:

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

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

The Authority evaluates whenever events or changes in circumstances indicate that the carrying amount of its capital assets have been impaired following the guidance of GASB 42 - "Accounting

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Reporting Entity and Significant Accounting Policies (*continued*)

and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". During fiscal year 2009, the Authority realized an impairment loss amounting to \$253 thousand, due to property damage resulting from Hurricane Omar. During fiscal year 2010, the West Indian Company recorded an impairment loss of \$1.5 million related to a dredging project (see note 5).

Operating and Non-operating Revenues

Operating revenues of the Authority include revenues of the operating fund of the Authority, revenues from the West Indian Company complex, and King's Alley Management, Inc. complex. Non-operating revenues consist of interest and dividend income generated from the restricted investments invested in short term investment instruments, federal grants, and budgetary allocations for operations. During the fiscal year ended September 30, 2010, the Authority's operating budget of \$6.9 million included \$3.5 million of budgetary allocations from excess matching funds.

Bond discounts and Issuance Costs

Bond discounts and issuance cost are deferred and amortized over the life of the debt. Bonds payable are reported net of the applicable bond discount. Bond issuance costs are reported as deferred charges in the Statement of Net Assets and are amortized over the term of the related debt on a straight-line basis which approximates the interest method.

Intra-account Transfers

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

Fair Value of Financial Instruments

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

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

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

Net Assets

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

Effect of Recent GASB Statements

The adoption in fiscal year 2010 of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and GASB Statement No. 52 *Land and Other Real Estate Held as Investments by Endowments*, in the opinion of management, did not have a material effect on the Authority's financial statements.

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Reporting Entity and Significant Accounting Policies (continued)

The adoption in fiscal year 2010 of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, and Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, in the opinion of management, did not have a material effect on the Authority's financial statements.

Future Adoption of GASB Statements

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

| <u>Statement Number</u> | | <u>Adoption Required in Fiscal Year</u> |
|-------------------------|--|---|
| 54 | Fund Balance Reporting and Governmental Fund Type Definitions | 2011 |
| 57 | OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans | 2012 |
| 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 |

2. Cash and Cash Equivalents

Cash and cash equivalents, segregated by category at September 30, 2010 and 2009, are as follows:

| | <u>Bank Balance</u> | <u>Carrying Amount</u> |
|--------------|----------------------|------------------------|
| 2010 | | |
| Restricted | \$ 78,106,592 | \$ 79,695,036 |
| Unrestricted | 37,233,114 | 36,192,164 |
| | <u>\$115,339,706</u> | <u>\$ 115,887,200</u> |
| | <u>Bank Balance</u> | <u>Carrying Amount</u> |
| 2009 | | |
| Restricted | \$ 77,017,844 | \$ 76,796,836 |
| Unrestricted | 31,342,285 | 30,711,458 |
| | <u>\$108,360,129</u> | <u>\$ 107,508,294</u> |

Restricted cash and cash equivalents represents cash segregated for debt service due under the Authority's debt agreements and capital projects.

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Cash and Cash Equivalents (*continued*)

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

As September 30, 2010, \$68,344,522 or 58% of the Authority's deposits in banks were held at Bank of New York, \$48,574,361 or 42%, were held at Banco Popular de Puerto Rico, and \$100,608 or .1% were held at First Bank Puerto Rico. As of September 30, 2009, \$64,640,039 or 59% of the Authority's deposits in banks were held at Bank of New York, \$38,605,685 or 36% were held at Banco Popular de Puerto Rico, and \$5,113,705 or 5% were held at First Bank Puerto Rico. Deposits held at Banco Popular de Puerto Rico and First Bank Puerto Rico were fully collateralized.

3. Restricted Investments

Investments include investments restricted for specific purposes and investments held in trust. Pursuant to the requirements of the Indenture of Trust, certain assets of the Government are maintained in a reserve account controlled by the Authority, and may be used only for the payment of principal and interest on the 2010 Bond Series A & B, 2009 Bond Series A (Cruzan), 2009 Bond Series A1, A2, B, & C, Series 2009A Tax Increment Revenue Bond Anticipation Notes, 2009 Bond Series A (Diageo), Series 2009B Working Capital Bond Anticipation Notes, Series 2009 A Notes, Series 2008 Notes, 2006 Bond Series, 2004 Bonds Series A, 2003 Bonds Series A, and the 1999 Bonds Series A.

Restricted investments in the reserve accounts at September 30, 2010, were as follows:

| | Debt Service | Construction Funds | Project Funds | Total |
|--|-----------------|-----------------------|------------------|----------------|
| 2010 Series A & B Revenue Bonds | \$ 49,864,351 | \$ - | \$ - | \$ 49,864,351 |
| 2009 Series A Bonds (Cruzan) | 3,913,089 | 28,515,982 | | 32,429,071 |
| 2009 Series A1, A2, B, C Revenue & Refunding Bonds | 63,188,316 | 56,611,044 | | 119,799,360 |
| 2009 Series A Bonds (Diageo) | 38,423,785 | 44,040,415 | | 82,464,200 |
| 2006 Series Bonds | 362,623 | 2,435,466 | | 2,798,089 |
| 2004 Series A Bonds | 9,678,250 | 15,019,799 | | 24,698,049 |
| 2003 Series A Revenue Bonds | 16,476,954 | 19,613,569 | | 36,090,523 |
| 1999 Series A Revenue Bonds | 26,475,966 | - | | 26,475,966 |
| 1998 Series Revenue Bonds | 44,059,752 | - | | 44,059,752 |
| Subtotal Bonds | \$ 252,443,086 | \$ 166,236,275 | \$ - | \$ 418,679,361 |
| 2009 A TIR Bond Anticipation Notes | \$ 1,104,923 | \$ - | \$ 1,223,570 | \$ 2,328,493 |
| 2009 B Working Capital Bond Anticipation Notes | 2 | | - | 2 |
| 2009 A Notes | 307,872 | | 507,094 | 814,966 |
| 2008 Notes | 241 | | 599,365 | 599,606 |
| Subtotal Notes | \$ 1,413,038 | \$ - | \$ 2,330,029 | \$ 3,743,067 |
| Total Bonds & Notes | \$ 253,856,124 | \$ 166,236,275 | \$ 2,330,029 | \$ 422,422,428 |

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Notes to Financial Statements
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Restricted Investments (continued)

Restricted investments in the reserve accounts at September 30, 2009, were as follows:

| | Debt Service | Construction Funds | Project Funds | Total |
|------------------------------------|-----------------|-----------------------|------------------|----------------|
| 2009 Series A Bonds (Diageo) | \$ 53,612,429 | \$ 127,026,678 | \$ - | \$ 180,639,107 |
| 2006 Series Bonds | 182,375 | 7,477,524 | | 7,659,899 |
| 2004 Series A Bonds | 9,906,948 | 19,380,473 | | 29,287,421 |
| 2003 Series A Revenue Bonds | 16,620,407 | 29,975,015 | | 46,595,422 |
| 1999 Series A Revenue Bonds | 25,556,451 | - | | 25,556,451 |
| 1998 Series Revenue Bonds | 96,950,783 | - | | 96,950,783 |
| Subtotal Bonds | \$ 202,829,393 | \$ 183,859,690 | \$ - | \$ 386,689,083 |
| 2009 A TIR Bond Anticipation Notes | \$ 960,000 | \$ - | \$ 40,000 | \$ 1,000,000 |
| 2009 A Notes | - | | 1,880,238 | 1,880,238 |
| 2008 Notes | 240 | | 796,402 | 796,642 |
| Subtotal Notes | \$ 960,240 | \$ - | \$ 2,716,640 | \$ 3,676,880 |
| Total Bonds & Notes | \$ 203,789,633 | \$ 183,859,690 | \$ 2,716,640 | \$ 390,365,963 |

Restricted investments, categorized by investment type, and weighted average maturity, at September 30, 2010 and 2009, are as follows:

| | 2010 | | 2009 | |
|-------------------------|----------------|--------------------------------------|----------------|--------------------------------------|
| | Fair Value | Weighted Average Maturity (Years) | Fair Value | Weighted Average Maturity (Years) |
| Money Market Funds | \$ 281,713,543 | | \$ 127,668,964 | |
| Portfolio Investments: | | | | |
| Commercial Paper | 63,486,866 | 0.00 | 64,451,744 | 0.00 |
| Government agency notes | 77,222,019 | 1.22 | 198,245,255 | 1.08 |
| Total fair value | 140,708,885 | 0.67 | 262,696,999 | 0.82 |
| Total Investments | \$ 422,422,428 | | \$ 390,365,963 | |

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

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

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Restricted Investments (continued)

At September 30, 2010, the Authority's investment in money market funds were rated AAAM and A-1+ by Standard & Poor's and AAA by Moody's Investor Service. The Authority's investments in commercial securities were rated A-1+ by Standard & Poor's and Aa2 by Moody's. The Authority's investment in Federal Government instruments was rated AAA by Standard and Poor's and Aaa by Moody's Investor Service.

At September 30, 2009, the Authority's investment in money market funds were rated AAAM by Standard & Poor's, Aaa/AAA by Moody's Investor Service, and AAA/V1+ by Fitch. The Authority's investments in commercial securities were rated A-1+, AA+ or higher by Standard & Poor's and Aa2 by Moody's.

Concentration of Credit Risk. The Authority places no limit on the amount that may be invested in one issuer. At September 30, 2010, more than 5% of the Authority's investments and restricted cash were invested in: Goldman Financial Square Money Market No. 524 (53.86%), Goldman Financial Square Money Market No. 474 (12.24%), Ebbetts PLC/LLC CPDS (8.23%), and Federal National Mortgage Association (7.07%).

At September 30, 2009, more than 5% of the Authority's investments and restricted cash were invested in: Goldman Financial Square Money Market No. 474 (16.45%), Goldman Financial Square Money Market No. 524 (19.50%), Federal National Mortgage Association (7.69%), US Treasury Notes (17.88%), US Treasury Bills (9.39%), GE Cap Corp Disc CP (5.07%), and Ford Credit Auto Receivables (9.09%).

Custodial Credit Risk. The Authority does not have a custodial credit risk policy. This is the risk that the Government will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2010 and 2009, all investments of the Authority were held in the name of The Bank of New York Trust Company, N.A., as Trustee for the Authority. Investments in the trust accounts are limited to the investments permitted by the trust indenture.

4. Restricted Loans Receivables

The Authority loaned the proceeds of the Series 2009A Notes, Series 2009B Working Capital Bond Anticipation Notes, Series 2008 Notes, Series 2006 Notes, Series 2006 Revenue Bonds, 2003 Revenue Bonds Series A and the 1999 Bonds Series A to the Government of the Virgin Islands. The loans, which are secured with pledged gross receipts taxes collected pursuant to Title 3, Section 43 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable (see Note 6).

The Authority loaned the proceeds of the 2010 Bond Series A & B, 2009 Bond Series A (Cruzan), 2009 Bond Series A1, A2, B, & C, 2009 Bond Series A (Diageo), 2004 Bond Series A and the 1998 Bond Series A, B, C, D and E to the Government of the Virgin Islands. The loans, which are secured with pledged matching fund revenues pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, bear the same interest rates, maturities, and repayment terms as the bonds payable (see Note 6).

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Restricted Loans Receivable (continued)

The Authority loaned the proceeds of the 2009 Series A Tax Increment Revenue Bond Anticipation Note to the Government of the Virgin Islands. The loan, which is secured by Island Crossings Incremental Tax Revenue, bears the same interest rate, maturity, and repayment terms as the note payable (see Note 6).

On September 30, 2010, the Government of the Virgin Islands advanced loan payments due on October 1, 2010. A summary of loan payments by associated bond series follows:

| Bond Series | Payment |
|--------------------------|----------------------|
| 2009 Cruzan Bonds | \$ 550,000 |
| 2009 A1, A2, B & C Bonds | 8,460,000 |
| 2006 Bonds | 1,580,000 |
| 2004 Bonds | 3,625,000 |
| 2003 Bonds | 3,495,000 |
| 1999 Bonds | 6,580,000 |
| | <u>\$ 24,290,000</u> |

5. Capital Assets

| | Balance 9/30/09 | Additions | Impairment/ Disposal | Transfers | Balance 9/30/2010 |
|-------------------------------------|----------------------------|-----------------------|---------------------------------|---------------------|------------------------------|
| Land | \$ 5,147,278 | \$ - | \$ - | \$ - | \$ 5,147,278 |
| Buildings and building improvements | 59,151,560 | 203,937 | (1,454,845) | 2,079,479 | 59,980,131 |
| Personal property and equipment | 3,540,508 | 106,951 | (28,125) | - | 3,619,334 |
| Total | <u>\$ 67,839,346</u> | <u>\$ 310,888</u> | <u>\$ (1,482,970)</u> | <u>\$ 2,079,479</u> | <u>\$ 68,746,743</u> |
| Less - accumulated depreciation | (18,949,285) | (2,426,348) | 28,125 | - | (21,347,508) |
| | <u>48,890,061</u> | <u>(2,115,460)</u> | <u>(1,454,845)</u> | <u>2,079,479</u> | <u>47,399,235</u> |
| Construction in progress | 1,366,354 | 713,125 | - | (2,079,479) | - |
| Total Capital Assets, net | <u>\$ 50,256,415</u> | <u>\$ (1,402,335)</u> | <u>\$ (1,454,845)</u> | <u>\$ -</u> | <u>\$ 47,399,235</u> |

| | Balance 9/30/08 | Additions | Impairment/ Disposal | Transfers | Balance 9/30/2009 |
|-------------------------------------|----------------------------|---------------------|---------------------------------|---------------------|------------------------------|
| Land | \$ 4,980,006 | \$ - | \$ - | \$ 167,272 | \$ 5,147,278 |
| Buildings and building improvements | 54,635,493 | 237,625 | (484,615) | 4,763,057 | 59,151,560 |
| Personal property and equipment | 3,499,045 | 120,005 | (78,542) | - | 3,540,508 |
| Total | <u>\$ 63,114,544</u> | <u>\$ 357,630</u> | <u>\$ (563,157)</u> | <u>\$ 4,930,329</u> | <u>\$ 67,839,346</u> |
| Less - accumulated depreciation | (16,804,683) | (2,305,033) | 160,431 | - | (18,949,285) |
| | <u>46,309,861</u> | <u>(1,947,403)</u> | <u>(402,726)</u> | <u>4,930,329</u> | <u>48,890,061</u> |
| Construction in progress | 3,039,943 | 3,256,740 | - | (4,930,329) | 1,366,354 |
| Total Capital Assets, net | <u>\$ 49,349,804</u> | <u>\$ 1,309,337</u> | <u>\$ (402,726)</u> | <u>\$ -</u> | <u>\$ 50,256,415</u> |

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Capital Assets (continued)

During fiscal year 2010, The West Indian Company wrote off \$1,454,845 of costs related to a dredging project. The project was initiated in fiscal year 2009 with the purpose of having the Oasis of the Seas berthing in WICO's dock. During 2010, the project was stopped and the ship eventually went to berth at VIPA's Crown Bay facility. There are no immediate plans to continue the project.

6. Bonds Payable

A summary of bond activity for the year ended September 30, 2010 and 2009, follows (in thousands):

| | (in thousands) | | | (in thousands) | | | | Bonds |
|----------------------|-----------------------------|---------------|---------------|-----------------------------|---------------|---------------|--------------|-----------------------|
| | Bonds Outstanding 9/30/2008 | New Issuances | Debt Payments | Bonds Outstanding 9/30/2009 | New Issuances | Debt Payments | Refunded | Outstanding 9/30/2010 |
| 2010 Series | \$ - | \$ - | \$ - | \$ - | \$ 399,050 | \$ - | \$ - | \$ 399,050 |
| 2009 Series "Cruzan" | - | - | - | - | 39,190 | - | - | 39,190 |
| 2009 Series "R&R" | - | - | - | - | 458,840 | - | - | 458,840 |
| 2009 Series "Diageo" | - | 250,000 | - | 250,000 | - | - | - | 250,000 |
| 2006 Series | 218,985 | - | (1,490) | 217,495 | - | (1,530) | - | 215,965 |
| 2004 Series | 85,595 | - | (3,285) | 82,310 | - | (3,450) | - | 78,860 |
| 2003 Series | 259,045 | - | (3,230) | 255,815 | - | (3,360) | - | 252,455 |
| 2002 Series | 3,475 | - | (3,475) | - | - | - | - | - |
| 1999 Series | 99,825 | - | (5,900) | 93,925 | - | (6,230) | - | 87,695 |
| 1998 Series | 412,875 | - | (17,370) | 395,505 | - | (18,480) | (377,025) | - |
| Total | \$ 1,079,800 | \$ 250,000 | \$ (34,750) | \$ 1,295,050 | \$ 897,080 | \$ (33,050) | \$ (377,025) | \$ 1,782,055 |

Bonds payable at September 30, 2010, and 2009, are comprised of the following (in thousands):

| | 2010 | 2009 |
|---|--------------|--------------|
| 2010 Series A and B Revenue Bonds | | |
| Interest at 4.00% to 5.25% | \$ 399,050 | \$ - |
| 2009 Series A Revenue Bonds (Cruzan) | | |
| Interest at 3.00% to 6.00% | 39,190 | - |
| 2009 Series A1, A2, B & C Revenue & Refunding Bonds | | |
| Interest at 3.00% to 5.00% | 458,840 | - |
| 2009 Series A Revenue Bonds (Diageo) | | |
| Interest at 6.00% to 6.75% | 250,000 | 250,000 |
| 2006 Series Revenue Bonds | | |
| Interest at 3.50% to 5.00% | 215,965 | 217,495 |
| 2004 Series A Revenue Bonds | | |
| Interest at 4.00% to 5.25% | 78,860 | 82,310 |
| 2003 Series A Revenue Bonds | | |
| Interest at 4.00% to 5.25% | 252,455 | 255,815 |
| 1999 Series A Revenue Bonds | | |
| Interest at 4.20% to 6.50% | 87,695 | 93,925 |
| 1998 Series A, B, C, D and E Revenue & Refunding Bonds Interest at 5.50% to 7.11% | - | 395,505 |
| Total Bonds payable | 1,782,055 | 1,295,050 |
| Less: Current portion | (24,290) | (33,050) |
| Deferred amount on defeased and refunded bonds | (10,875) | (9,964) |
| Long-term portion of bonds payable | \$ 1,746,890 | \$ 1,252,036 |

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Bonds Payable (continued)

On July 8, 2010, the Authority issued the Series 2010A, and Series 2010B Revenue Bonds, the proceeds of which amounted to \$399,050,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Sixth Supplemental Indenture and the Series 2010 Loan Notes issued by the Government. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2010A Bonds were issued to: (i) finance various operating expenses of the Government, (ii) refinance a portion of the outstanding Series 2009 B1 & B2 Notes, (iii) fund the Series 2010A Subordinate Lien Debt Service Reserve Account, and (iv) finance certain costs of issuance of the Series 2010A Bonds. The Series 2010B Bonds were issued to: (i) refinance a portion of the outstanding Series 2009 B1 & B2 Notes, (iii) fund the Series 2010B Subordinate Lien Debt Service Reserve Account, and (iv) finance certain costs of issuance of the Series 2010B Bonds. The Series 2010A Bonds amount to \$305,000,000 and mature from 2012 to 2029 at an interest rate of 4.00% to 5.00%. The Series 2010B Bonds amount to \$94,050,000 and mature from 2020 to 2029 at an interest rate of 4.25% to 5.25%.

On December 17, 2009, the Authority issued the Series 2009 A Bonds, amounting to \$39,190,000, to finance the costs of the development, acquisition, construction and installation of a wastewater treatment facility and to fund certain preliminary costs of the alteration, upgrade, expansion and renovation of the Cruzan distillery on St. Croix, to establish debt service reserves, and to finance costs of issuance of the 2009A Bonds. These bonds are special limited obligations of the Authority payable from and secured by a pledge of the Cruzan Trust estate which includes certain funds established under the Subordinated Indenture and the First Supplemental Subordinate Indenture of Trust. The bonds bear interest at 3.00% to 6.00% and mature from 2010 to 2039 and are subject to an optional redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

In association with the 2009 Series A bonds, the Authority entered into an agreement with Cruzan VIRIL, Ltd. (Cruzan), on October 6, 2009. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to the Government and Cruzan of 60%-80%, and 54%-60%, respectively.

On October 1, 2009, the Authority issued the Series 2009A-1, Series 2009A-2, Series 2009B, and Series 2009C Revenue and Refunding Bonds, the proceeds of which amounted to \$458,840,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Fourth Supplemental Indenture and the Series 2009 Loan Notes issued by the Government. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2009A-1 and the Series 2009A-2 Bonds were issued to: (i) finance various capital projects of the Government, (ii) fund the Series 2009A Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009A-1 and 2009A-2 Bonds. The Series 2009A-1 Bonds amount to \$86,350,000 and mature from 2010 to 2039 at interest rates from 3.00% to 5.00%. The Series 2009A-2 Bonds amount to \$8,650,000 and mature from 2010 to 2011 at an interest rate of 3.00%. The Series 2009B Bonds were issued to: (i) current refund the Series 1998A Revenue and Refunding Bonds (Senior Lien/Refunding Bonds), (ii) fund the Series 2009B Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009B Bonds. The Series 2009B Bonds amount to \$266,330,000 and mature from 2010 to 2025 at an interest rate of 5.00%. The Series 2009C Bonds were issued to:

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Bonds Payable (continued)

(i) current refund the Series 1998E Revenue and Refunding Bonds (Subordinate Lien/Capital Program Bonds), (ii) fund the Series 2009C Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009C Bonds. The Series 2009C Bonds amount to \$97,510,000, and mature from 2010 to 2022 at an interest rate of 5.00%. The Series 2009 Bonds are subject to optional redemption by the Authority on or after October 1, 2019 at redemption price of 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

The current refunding of the 1998 Series A & E Bonds, on October 28, 2009, was made in order to obtain lower interest rates. The economic gain obtained by this current 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 \$35.9 million and an economic gain of approximately \$35.6 million.

On July 9, 2009, the Authority issued the 2009 Series A Bonds, the proceeds of which amounted to \$250,000,000. These bonds are secured by a pledge of Diageo Matching Fund Revenues (Matching Funds generated from the sale of Captain Morgan rum products), which includes certain funds established under the original indenture, the Third Supplemental Indenture and the 2009 Matching Fund Loan Note – Diageo Project, Series A issued by the Government. The bonds bear interest at 6.00% to 6.75% and mature from 2013 to 2037. The proceeds were loaned to the Government of the United States Virgin under the same terms as the bonds. The bonds are limited special obligations of the Authority. 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 St. Croix (the "Diageo Project") (ii) redeem the Subordinated Revenue Bond Anticipation Notes (Virgin Islands Matching Fund Loan Notes – Diageo Project) Series 2009A issued to finance preliminary costs of the Diageo Project (iii) fund the Series 2009A Senior Lien Debt Service Reserve Account, (iv) pay capitalized interest on the Series 2009A Bonds, and (v) finance certain costs of issuance of the Series 2009A Bonds. The Series 2009A 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 fixed for redemption.

In association with the 2009 Series A bonds, the Authority entered into an agreement with Diageo USVI, Inc. (Diageo), on June 17, 2008. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to Diageo of 49.5%-57%.

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

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Bonds Payable (*continued*)

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

In February, 2008, the counterparty negotiated a settlement payment to the Authority to terminate the 2006 Basis Swap. The Authority received \$4.91 million from the counterparty, and a release of reserves of \$2.9 million to the Series 2006 bond project accounts.

The proceeds of the 2006 Series Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2024 to 2029 maturities of the 1999 Series A Bonds. Approximately \$175,125,168 in funds was deposited into the Escrow Fund accounts. At September 30, 2010, \$162,870,000 of the defeased 1999 bonds are outstanding.

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

On December 17, 2003, the Authority issued the Series 2003 A Revenue Bonds the proceeds of which amounted to \$268,020,000. These bonds are secured by a pledge of the Trust estate, which includes certain funds established under the original Indenture, the Fourth Supplemental Indenture and the 2003 Gross Receipts Taxes Loan Note, Series A issued by the Government. The bonds bear interest at 4.00% to 5.25% and mature from 2005 to 2033. The proceeds were loaned to the Government of the United States Virgin Islands under the same terms as the Bonds. The bonds are limited special obligations of the Authority. The bonds were issued to: (i) repay the Authority's outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund the Debt Service Reserve Accounts, and (iv) pay certain costs of issuing the Series 2003A Bonds. The 2003 Series A Bonds are not subject to optional redemptions prior to October 1, 2014.

On February 28, 2003, the Authority entered into a swaption contract that provided the Authority with an up-front payment of \$8.3 million. The swaption gave the counterparty the option to make the Authority enter into a pay-fixed, receive-variable interest rate swap. If the option was exercised, the Authority would then expect to issue variable-rate refunding bonds. The Authority has outstanding \$250,565,000 of 1999A Series Bonds with maturities from 2011 to 2029. The 1999A Bonds were callable by the Authority on October 1, 2010 at 101%. Having been advised by its underwriters and financial advisor that there were no net present value savings available to it by issuing conventional advance refunding bonds, the Authority sold a LIBOR based swaption to Lehman Brothers Special Financing, Inc. on the 2024 and 2029 maturities, totaling \$162,870,000.

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Bonds Payable (*continued*)

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

On October 1, 2002, the Authority issued the Series 2002 Revenue Bonds ("Garvey Bonds"), the proceeds of which amounted to \$20,845,000. The bonds are special, limited obligations, secured solely by the pledge and assignment of the Government's security interest in Federal Highway Reimbursement Revenues. The bonds were issued to (i) fund construction costs related to renovation and construction of two sea docks, (ii) fund the Debt Service Reserve Accounts, and (iii) pay certain costs of issuing the bonds. The Series 2002 Bonds had been paid in full by September 30, 2009.

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

On May 1, 1998, the Authority issued the 1998 Series A, B, C, D, and E Bonds, which proceeds amounted to \$541,820,000. These bonds are not guaranteed by the Government, however, the Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 1998 Series Bonds. These bonds were issued for the purpose of, among others, the advance refunding of previously issued bonds. The advance refunding of these bond series was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately \$40 million and an economic gain of approximately \$19 million. On October 28, 2009, the Authority current refunded the 1998 Bonds with the 2009 Series B & C Bonds.

The proceeds of the 1998 Series A and B Bonds were placed in an irrevocable trust account to provide for all future debt service payments on the Highway Revenue Bonds Series 1989, Series 1991, Series 1992, Series 1993 and Series 1994 Bonds. Approximately \$304,520,000 in funds was deposited into the Escrow Fund accounts. At September 30, 2010, \$111,475,000 of defeased bonds were outstanding. The 1998 Series C Bonds and the 1998 Series D Bonds were issued to pay, on behalf of the Government, the full principal balance and interest on the 1998 Revenue Anticipation Note. The balance of the 1998 Series D Bond financed approximately \$11,600,000 in additional working capital. The 1998 Series E Bonds were designated to fund the construction of certain capital projects.

The proceeds of the Series 1992 Revenue bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue bonds. At September 30, 2010, \$111,345,000 of defeased bonds was outstanding.

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

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Bonds Payable (*continued*)

Pledged Funds

The Government has pledged Island Crossings Incremental Tax Revenue and proceeds of the anticipated Tax Increment Revenue Bond Anticipation Note to the timely payment of the principal and interest on the 2009 A Loan. Incremental Tax Revenue will be deposited into the Island Crossing Tax Increment Trust account in accordance with the Loan Agreement.

The Government has pledged Gross Receipts Taxes subject to the annual moderate income housing fund deposit, as well as any prior lien or pledge, to the timely payment of the principal and interest on the Series 2009 B1 and B2 Working Capital Notes, the Series 2009A Notes, Series 2008 Notes, Series 2006 Notes, 2006 Revenue Bonds, the Series 2003 A Bonds and the 1999 Series A Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

The Government has pledged the Matching Fund Revenues, as described below, to the timely payment of principal and interest on the 2010 Series A & B Bonds, 2009 Series A Bonds (Cruzan), the 2009 Series A1, A2, B & C Bonds, the 2009 Series A Bonds (Diageo), the 2004 Series A Bonds and the 1998 Series A, B, C, D and E Bonds. Thus, all amounts to be received by the Government from federal excise tax, mostly for rum, are deposited directly in a trust account from which the 2010 A & B, 2009 A Cruzan, 2009 A1, A2, B & C, 2009 A Diageo, 2004 and 1998 Bonds are paid in accordance with the Indenture of Trust.

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

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

Interest on Bonds

Interest on the 2010 Series A & B bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2010 Series A & B bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

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Bonds Payable (*continued*)

Interest on the 2009 Series A bonds (Cruzan) is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2009 Series A bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the 2009 Series A1, A2, B & C bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2009 Series A1, A2, B & C bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the 2009 Series A bonds (Diageo) is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the 2009 Series A bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

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

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

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

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Bonds Payable (continued)

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

Interest expense related to bonds payable during the fiscal years ended September 30, 2010 and 2009 was as follows (in thousands).

| | 2010 | 2009 |
|---|------------------|------------------|
| 2010 Series A/B Revenue Bonds | \$ 4,227 | \$ - |
| 2009 Series A Revenue Bonds (Cruzan) | 1,776 | - |
| 2009 Series A1,A2, B, C Revenue Bonds | 21,044 | - |
| 2009 Series A Revenue Bonds (Diageo) | 16,703 | 3,804 |
| 2006 Series Revenue Bonds | 10,461 | 10,522 |
| 2004 Series Revenue Bonds | 4,090 | 4,263 |
| 2003 Series Revenue Bonds | 12,678 | 12,813 |
| 2002 Series Revenue Bonds | - | 174 |
| 1999 Series Bonds | 5,541 | 5,892 |
| 1998 Revenue & Refunding Bonds | 1,582 | 22,082 |
| | <u>\$ 78,102</u> | <u>\$ 59,549</u> |
| Other interest expense mainly related to loans and notes payable outstanding | 9,253 | 2,194 |
| Total | <u>\$ 87,355</u> | <u>\$ 61,743</u> |

Maturity dates and debt service requirements as of September 30, 2010, for the Series 2010 A & B Revenue Bonds are as follows (in thousands):

| October 1 | Principal | Series 2010 A & B Interest | Total |
|-----------|-------------------|-------------------------------|-------------------|
| 2010 | \$ - | \$ 4,227 | \$ 4,227 |
| 2011 | - | 20,021 | 20,021 |
| 2012 | 1,990 | 20,021 | 22,011 |
| 2013 | 2,065 | 19,942 | 22,007 |
| 2014 | 2,155 | 19,859 | 22,014 |
| 2015-2019 | 7,185 | 97,800 | 104,985 |
| 2020-2024 | 9,465 | 95,207 | 104,672 |
| 2025-2029 | 376,190 | 68,798 | 444,988 |
| | <u>\$ 399,050</u> | <u>\$ 345,875</u> | <u>\$ 744,925</u> |

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Bonds Payable (continued)

Maturity dates and debt service requirements as of September 30, 2010, for the Series 2009 A (Cruzan) Revenue Bonds are as follows (in thousands):

| October 1 | Series 2009 A Bonds - Cruzan | | |
|-----------|------------------------------|------------------|------------------|
| | Principal | Interest | Total |
| 2010 | \$ 550 | \$ 1,126 | \$ 1,676 |
| 2011 | 565 | 2,235 | 2,800 |
| 2012 | 585 | 2,218 | 2,803 |
| 2013 | 605 | 2,201 | 2,806 |
| 2014 | 640 | 2,171 | 2,811 |
| 2015-2019 | 3,715 | 10,340 | 14,055 |
| 2020-2024 | - | 9,759 | 9,759 |
| 2025-2029 | - | 9,759 | 9,759 |
| 2030-2034 | - | 9,759 | 9,759 |
| 2035-2038 | 32,530 | 9,759 | 42,289 |
| | <u>\$ 39,190</u> | <u>\$ 59,327</u> | <u>\$ 98,517</u> |

Maturity dates and debt service requirements as of September 30, 2010, for the Series 2009 A1, A2, B & C Revenue & Refunding Bonds are as follows (in thousands):

| October 1 | Series 2009 A1, A2, B, & C Revenue and Refunding Bonds | | |
|-----------|--|-------------------|-------------------|
| | Principal | Interest | Total |
| 2010 | \$ 8,460 | \$ 11,246 | \$ 19,706 |
| 2011 | 29,650 | 22,138 | 51,788 |
| 2012 | 24,145 | 20,819 | 44,964 |
| 2013 | 25,355 | 19,642 | 44,997 |
| 2014 | 26,460 | 18,407 | 44,867 |
| 2015-2019 | 153,965 | 71,114 | 225,079 |
| 2020-2024 | 38,055 | 44,899 | 82,954 |
| 2025-2029 | 109,625 | 19,204 | 128,829 |
| 2030-2034 | - | 10,781 | 10,781 |
| 2035-2039 | 43,125 | 10,781 | 53,906 |
| | <u>\$ 458,840</u> | <u>\$ 249,031</u> | <u>\$ 707,871</u> |

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Bonds Payable (*continued*)

Maturity dates and debt service requirements as of September 30, 2010, for the Series 2009 A (Diageo) Revenue Bonds are as follows (in thousands):

| October 1 | Series 2009 A Bonds- Diageo | | |
|-----------|-----------------------------|-------------------|-------------------|
| | Principal | Interest | Total |
| 2010 | \$ - | \$ 8,351 | \$ 8,351 |
| 2011 | - | 16,703 | 16,703 |
| 2012 | - | 16,703 | 16,703 |
| 2013 | 4,040 | 16,703 | 20,743 |
| 2014 | 4,290 | 16,460 | 20,750 |
| 2015-2019 | 26,290 | 77,704 | 103,994 |
| 2020-2024 | 36,730 | 67,597 | 104,327 |
| 2025-2029 | 51,150 | 53,646 | 104,796 |
| 2030-2034 | 71,485 | 34,031 | 105,516 |
| 2035-2038 | 56,015 | 7,732 | 63,747 |
| | <u>\$ 250,000</u> | <u>\$ 315,630</u> | <u>\$ 565,630</u> |

Maturity dates and debt service requirements as of September 30, 2010, for the Series 2006 Revenue Bonds are as follows (in thousands):

| October 1 | Series 2006 | | |
|-----------|-------------------|-------------------|-------------------|
| | Principal | Interest | Total |
| 2010 | \$ 1,580 | \$ 5,230 | \$ 6,810 |
| 2011 | 2,705 | 10,397 | 13,102 |
| 2012 | 2,805 | 10,262 | 13,067 |
| 2013 | 2,905 | 10,122 | 13,027 |
| 2014 | 3,015 | 9,977 | 12,992 |
| 2015-2019 | 16,825 | 47,508 | 64,333 |
| 2020-2024 | 84,735 | 37,375 | 122,110 |
| 2025-2029 | 101,395 | 14,760 | 116,155 |
| | <u>\$ 215,965</u> | <u>\$ 145,631</u> | <u>\$ 361,596</u> |

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Maturity dates and debt service requirements as of September 30, 2010, for the Series 2004 Revenue Bonds are as follows (in thousands):

| October 1 | Principal | Series 2004 A Interest | Total |
|-----------|------------------|---------------------------|-------------------|
| 2010 | \$ 3,625 | \$ 2,045 | \$ 5,670 |
| 2011 | 3,805 | 3,909 | 7,714 |
| 2012 | 3,995 | 3,719 | 7,714 |
| 2013 | 4,195 | 3,519 | 7,714 |
| 2014 | 4,405 | 3,309 | 7,714 |
| 2015-2019 | 25,675 | 12,886 | 38,561 |
| 2020-2024 | 33,160 | 5,401 | 38,561 |
| | <u>\$ 78,860</u> | <u>\$ 34,788</u> | <u>\$ 113,648</u> |

Maturity dates and debt service requirements as of September 30, 2010, for the Series 2003 Revenue Bonds are as follows (in thousands):

| October 1 | Principal | Series 2003 A Interest | Total |
|-----------|-------------------|---------------------------|-------------------|
| 2010 | \$ 3,495 | \$ 6,339 | \$ 9,834 |
| 2011 | 3,635 | 12,539 | 16,174 |
| 2012 | 3,815 | 12,357 | 16,172 |
| 2013 | 4,010 | 12,166 | 16,176 |
| 2014 | 4,210 | 11,966 | 16,176 |
| 2015-2019 | 24,550 | 56,330 | 80,880 |
| 2020-2024 | 31,660 | 49,221 | 80,881 |
| 2025-2029 | 40,450 | 40,423 | 80,873 |
| 2030-2033 | 136,630 | 17,495 | 154,125 |
| | <u>\$ 252,455</u> | <u>\$ 218,836</u> | <u>\$ 471,291</u> |

Maturity dates and debt service requirements as of September 30, 2010, for the Series 1999 A Revenue Bonds is as follows (in thousands):

| October 1 | Principal | Series 1999 A Interest | Total |
|-----------|------------------|---------------------------|-------------------|
| 2010 | \$ 6,580 | \$ 2,771 | \$ 9,351 |
| 2011 | 6,950 | 5,171 | 12,121 |
| 2012 | 7,395 | 4,720 | 12,115 |
| 2013 | 7,865 | 4,257 | 12,122 |
| 2014 | 8,365 | 3,755 | 12,120 |
| 2015-2019 | 50,540 | 10,063 | 60,603 |
| | <u>\$ 87,695</u> | <u>\$ 30,737</u> | <u>\$ 118,432</u> |

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Bonds Payable (continued)

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

| October 1 | Principal | Total Debt Service Interest | Total |
|-----------|---------------------|--------------------------------|---------------------|
| 2010 | \$ 24,290 | \$ 41,335 | \$ 65,625 |
| 2011 | 47,310 | 93,113 | 140,423 |
| 2012 | 44,730 | 90,819 | 135,549 |
| 2013 | 51,040 | 88,552 | 139,592 |
| 2014 | 53,540 | 85,904 | 139,444 |
| 2015-2019 | 308,745 | 383,745 | 692,490 |
| 2020-2024 | 233,805 | 309,459 | 543,264 |
| 2025-2029 | 678,810 | 206,590 | 885,400 |
| 2030-2033 | 208,115 | 72,066 | 280,181 |
| 2034-2039 | 131,670 | 28,272 | 159,942 |
| | <u>\$ 1,782,055</u> | <u>\$ 1,399,855</u> | <u>\$ 3,181,910</u> |

The 2010 Series A & B Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

| 2010 Series A & B | Price |
|--------------------------------|-------|
| October 1, 2021 and thereafter | 100% |

The 2009 Series A Bonds (Cruzan) maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

| 2009 Series A (Cruzan) | Price |
|--------------------------------|-------|
| October 1, 2019 and thereafter | 100% |

The 2009 Series A1, A2, B & C Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

| 2009 Series A1, A2, B & C | Price |
|--------------------------------|-------|
| October 1, 2019 and thereafter | 100% |

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The 2009 Series A Bonds (Diageo) maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

| 2009 Series A (Diageo) | Price |
|--------------------------------|--------------|
| October 1, 2019 and thereafter | 100% |

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

| 2006 Series | Price |
|--------------------------------|--------------|
| October 1, 2016 and thereafter | 100% |

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

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

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

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

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

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7. Conduit Debt

In November 2002, the Authority and the Government 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 (\$126.8 million in total), respectively, 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 the Authority and the Government, payable solely from and are secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority, Government and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority's basic financial statements. As of September 30, 2010, \$126.8 million of the bonds remain outstanding.

In December 2003, the Authority 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 the Authority, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority's basic financial statements. As of September 30, 2010, \$74.2 million of the bonds remain outstanding.

In April 2004, the Authority 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 the Authority, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority's basic financial statements. As of September 30, 2010, \$50.7 million of the bonds remain outstanding.

In March 2007, the Authority 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 the Authority, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between the Authority and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Authority is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Authority's basic financial statements. As of September 30, 2010, \$104.1 million of the bonds remain outstanding.

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8. Long-Term Loans and Notes

Long-term loans and notes outstanding were as follows:

| | Loans (in thousands) | | | Loans (in thousands) | | | Loans |
|--------------------------|----------------------|-------------------|--------------------|----------------------|-------------------|---------------------|------------------|
| | Outstanding | New | Debt | Outstanding | New | Debt | Outstanding |
| | 9/30/2008 | Issuances | Payments | 9/30/2009 | Issuances | Payments | 9/30/2010 |
| 2009 BAN B1 & B2 | \$ - | \$ 100,000 | \$ - | \$ 100,000 | \$ 106,400 | \$ (200,000) | \$ 6,400 |
| 2009A TIR BAN | - | 6,032 | - | 6,032 | 4,000 | - | 10,032 |
| 2009A Diageo BAN | - | 29,615 | (29,615) | - | - | - | - |
| 2009 A Revenue Loan Note | - | 8,000 | - | 8,000 | - | (708) | 7,292 |
| 2008 VIPD Note | 7,442 | - | (2,436) | 5,006 | - | (2,556) | 2,450 |
| 2006 VIFD Note | 1,403 | - | (1,403) | - | - | - | - |
| WICO | 23,557 | 564 | (607) | 23,514 | - | (605) | 22,909 |
| Total | <u>\$ 32,402</u> | <u>\$ 144,211</u> | <u>\$ (34,061)</u> | <u>\$ 142,552</u> | <u>\$ 110,400</u> | <u>\$ (203,869)</u> | <u>\$ 49,083</u> |

On September 18, 2009, the Authority entered into Subordinated Lien Revenue Bond Anticipation Notes (the "Series 2009B Notes") creating credit facilities with two local banks: 1) the Series 2009B-1 Note with First Bank of Puerto Rico (the "Agent Lender") in the amount of \$150 million, and 2) the Series 2009B-2 Note with Banco Popular de Puerto Rico (the "Syndicate Lender") in the amount of \$100 million. The purpose of the Series 2009B Notes is to provide a loan to the Government of the Virgin Islands in the amount of \$250 million (the "Series 2009B Gross Receipts Taxes Loan Notes") to finance (i) certain operating expenses of the Government, and (ii) to pay costs of the issuance. The Series 2009B Gross Receipts Taxes Loan Notes are general obligations of the Government. The Government has also pledged a security interest in gross receipts tax collections. Interest is assessed at 400 points above the 90-day LIBOR rate, at a floor rate of 5.50%. Interest payments are due the first business day of the month, effective October 1, 2009. As of September 30, 2010, the Authority had drawn \$206.4 million (\$106.4 million in 2010 and \$100.0 million in 2009) under the Series 2009B Notes, and had repaid \$200.0 million in 2010, leaving an outstanding amount of \$6.4 million (\$3.8 million from the Agent lender and \$2.6 million from the Syndicate lender). In June 2010, the Agent Lender and Syndicate Lender approved modification to the Series B Notes extending the maturity date from October 1, 2010 to October 1, 2013 and a maximum amount of \$78,840,000 from the Agent Lender and \$52,560,000 from the Syndicate Lender.

On September 25, 2009, the Authority entered into a Bond Anticipation Note Purchase Agreement with a local bank. Under the terms of the Note Purchase Agreement, the bank will purchase up to \$15,700,000 in federally taxable Bond Anticipation Notes (the "Series 2009A Notes") issued by the Authority. The purpose of the Series 2009A Notes is to provide a loan to the Government of the Virgin Islands (the "Series 2009A Tax Increment Revenue Loan Note") to finance the development of a shopping complex on the island of St. Croix. The financing is provided under Tax Increment Financing legislation enacted in October 2008 by the Government. Both the Series 2009A Notes, and the Series 2009 Tax Increment Revenue Loan Note 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

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Long-Term Loans and Notes (*continued*)

payments made in eleven quarterly payments and a final payment on October 1, 2015. Under the terms of the Series 2009A Notes, the Authority may issue Tax Increment Revenue Bonds to defease the debt prior to that date. As of September 30, 2010, the Authority had sold \$10,031,528 in Series 2009A Notes to the local bank, and loaned that amount to the Government. The proceeds were used to: i) fund a capitalized interest account, ii) pay costs of issuance, and iii) fund the first phase of the development of the shopping complex.

On June 29, 2009, the Authority entered into a Subordinated Revenue Bond Anticipation Note Purchase Agreement with J P. Morgan Securities, Inc. to purchase \$29,615,000 in Subordinated Revenue Bond Anticipation Notes (the "Series 2009A Notes"). The purpose of the Series 2009A Notes is to provide a loan to the Government of the Virgin Islands (the "Series 2009A Matching Fund Loan Notes – Diageo Project"). The Government provided a grant to Diageo USVI, Inc. for 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, 2008 to July 28, 2009, and interest rates based on the 1-Month LIBOR rate plus 200 basis points thereafter. The Series 2009A Notes were paid on July 9, 2009 with the proceeds of the Series 2009A Subordinated Revenue Fund Bonds.

On February 12, 2009, the Authority issued the Subordinate Lien Revenue Bond Anticipation Notes, Series 2009A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of \$8,000,000 (the "Series 2009 A Notes"). The Series 2009A Notes accrued interest at a rate of 4.75% due at maturity on February 1, 2010. The proceeds of the Series 2009A Notes were loaned to the Government of the Virgin Islands under the same terms, for the purposes of (i) financing the purchase and installation of 911 communication equipment for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the Series 2009A Notes. On February 1, 2010, the Authority elected a conversion of the Series 2009 A Notes to a term note with principal and interest payable semi-annually, with an interest rate of 5.40% and maturity date of August 1, 2015.

On August 12, 2008, the Authority issued the Subordinate Lien Revenue Notes, Series 2008A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of \$7,650,000 (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 Government of the Virgin Islands under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department, and (ii) paying certain costs of issuing the Series 2008 Notes.

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

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Long-Term Loans and Notes (*continued*)

On June 1, 2008, the West Indian Company refinanced its outstanding loans and obtained additional financing of \$2.3 million, increasing the facility to \$23,500,000. The loan will be repaid in 120 consecutive monthly installments of \$154,953 (representing principal and interest) and a final payment of the outstanding principal balance plus any unpaid interest in 2018. The loan may be prepaid, in whole or in part, at any time without penalty.

As part of the loan agreements, no dividends may be declared and no additional equity interests may be granted during the term of the loans without the lenders approval.

The West Indian Company (WICO) has guaranteed the notes and has pledged all leases and revenues to secure the loans. Pursuant to the requirement of the Loan Agreements, WICO maintains restricted cash in a reserve account controlled by the Authority for the payment of principal and interest on the long-term notes. This Debt Service Reserve Fund will be equal to one year's debt service payments. As of September 30, 2010 and 2009, as required by the Loan Agreements, the Company has funded 100% of this amount, which is presented in the statement of net assets as restricted cash in the amount of \$1,915,257 (2009 - \$1,897,152).

Over the last three years the Company's operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and also by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Ports Authority. This situation is compounded by a minimum contribution in lieu of taxes of \$700,000, regardless of the operating results. These situations have resulted in reductions in revenues and operating income, leading to an operating loss of approximately \$264,000 in fiscal year 2010, as well as decreases in working capital (current assets less current liabilities) to approximately \$482,000 and a deficit in unrestricted net assets of approximately \$775,000. As a consequence, WICO did not comply, as of September 30 2010 and for the year then ended, with loan covenant requirement minimum operating revenue thresholds. At September 30, 2010, the Company did comply with the debt service reserve requirement of its loan agreement, which requires that it set aside sufficient cash for the following year's debt service requirements. The Company also had positive operating cash flow during fiscal year 2010. The Company requested and the Bank granted a waiver over the failure to comply with the minimum operating revenue for fiscal year 2010. The waiver was granted on May 13, 2011.

The West Indian Company had obligations under capital leases at September 30, 2010 consisting of a lease agreement for the acquisition of security equipment, of \$206,747 thousand in minimum payments, \$19,187 represented interest, and \$187,560 represented the current portion.

The Authority has pledged WICO revenues to the timely payment of principal and interest of the loan. Interest expense during the period ended September 30, 2010 and 2009, amounted to \$1.4 million and \$1.5 million, respectively.

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Long-Term Loans and Notes (continued)

Future minimum payments of principal for the five years subsequent to September 30, 2010, and thereafter are as follows:

| Fiscal Year | 2009 B Working Capital Bond Anticipation Notes | 2009 TIR Bond Anticipation Notes | 2009 A Revenue Loan Notes | 2008 VIPD Notes | WICO | Total |
|-----------------------------|---|---|------------------------------------|-----------------------|---------------|---------------|
| 2011 | \$ - | \$ - | \$ 1,472,911 | \$ 2,449,789 | \$ 651,315 | \$ 4,574,015 |
| 2012 | - | - | 1,553,521 | - | 493,340 | 2,046,861 |
| 2013 | 6,400,000 | 128,617 | 1,638,544 | - | 524,811 | 8,691,972 |
| 2014 | - | 181,066 | 1,728,220 | - | 558,290 | 2,467,576 |
| 2015 | - | 192,650 | 899,262 | - | 593,905 | 1,685,817 |
| Thereafter | - | 9,529,195 | - | - | 20,087,130 | 29,616,325 |
| | 6,400,000 | 10,031,528 | 7,292,458 | 2,449,789 | 22,908,791 | 49,082,566 |
| Less current debt | - | - | 1,472,911 | 2,449,789 | 470,981 | 4,393,681 |
| Less current capital leases | - | - | - | - | 187,560 | 187,560 |
| Total | \$ 6,400,000 | \$ 10,031,528 | \$ 5,819,547 | \$ - | \$ 22,250,250 | \$ 44,501,325 |

9. Federal Grants

On January 4, 2010, the Authority's Office of Economic Opportunity was awarded a federal grant in the amount of \$1,294,854 from the U.S. Department of Commerce under the American Recovery and Reinvestment Act of 2009 for the development of a U.S. Virgin Islands Broadband Mapping and Planning System. On September 28, 2010 the award was increased to \$3,009,506. The grant period is from January 1, 2010 through December 31, 2014. As of September 30, 2010, the Authority had \$1,247,263 in reimbursable project expenses related to the project.

On August 17, 2010, the Authority's Office of Economic Opportunity was awarded a federal grant in the amount of \$58,888,469 from the U.S. Department of Commerce under the American Recovery and Reinvestment Act of 2009 for the development of a U.S. Virgin Islands Broadband Infrastructure. The grant period is from August 1, 2010 through July 31, 2013. As of September 30, 2010, the Authority had no reimbursable project expenses related to the project. On August 31, 2011, the Authority received communication from the U.S. Department of Commerce recommending the suspension of the grant pending the completion of a corrective action plan to address certain deficiencies observed in the operation and management of the grant.

On September 13, 2010, the Authority's Office of Economic Opportunity was awarded a federal grant in the amount of \$2,535,082 from the U.S. Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the U.S. Virgin Islands Comprehensive Community Infrastructure project. The grant period is from September 1, 2010 through August 31, 2013. As of September 30, 2010, the Authority had no reimbursable project expenses related to the project.

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Federal Grants (*continued*)

On September 13, 2010, the Authority's Office of Economic Opportunity was awarded a federal grant in the amount of \$3,021,867 from the U.S. Department of Commerce under the American Recovery and Reinvestment Act of 2009 to fund the U.S. Virgin Islands Public Computer Centers project. The grant period is from September 1, 2010 through August 31, 2013. As of September 30, 2010, the Authority had no reimbursable project expenses related to the project.

During fiscal year 2010, the Authority's Office of Economic Opportunity received \$805,146 as a subrecipient of the ARRA formula grant for State Fiscal Stabilization.

10. Commitments

Future Minimum Lease Payments

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

Future Lease payments

| | |
|-------------------------------|-------------------|
| 2011 | \$ 64,370 |
| 2012 | 70,000 |
| 2013 | 70,000 |
| 2014 | 70,000 |
| 2015 | 70,000 |
| 2016 | 26,274 |
| Total future minimum payments | <u>\$ 370,644</u> |

11. Contingencies

The Authority has a loan receivable amounting to approximately \$1.8 billion from the Government (see Note 4). The principal and interest to be paid by the Government to the Authority on the loans receivable is mainly derived from excise taxes on exported rum received by the Government and gross receipts taxes, as more fully described in Note 6 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the 2010 A & B, 2009 A (Cruzan), 2009 A1, A2, B & C, 2009A (Diageo), 2006, 2004A, 2003, and 1999 Bonds and the 2009 Series B1 & B2, Series 2009A, 2009 TIR, and 2008 Notes.

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the United States Virgin Islands)
Notes to Financial Statements
September 30, 2010 and 2009

Contingencies (*continued*)

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

The Authority is party to a Memorandum of Agreement with the Virgin Islands Department of Education to administer \$5 million in funds appropriated by the Virgin Islands Legislature to be expended as follows: (i) the development of engineering specifications and plans for the Virgin Islands public schools and (ii) repairs, renovations and upgrades at specified Virgin Islands public schools. The agreement was executed on September 28, 2007.

On June 30, 2010, the Authority approved support for a guaranty of a commercial loan for the Paradise Point Project (a privately-owned tramway, restaurant, and shopping complex on the island of St. Thomas) in the amount of \$9.4 million. These funds are to be used for construction and repairs of Paradise Point, marketing, working capital and interest reserves. The guaranty is subject to completion of due diligence, necessary Legislative authorization, and further Board of Directors approval once financing is obtained by Wintdots Development.

During the normal course of business, the Authority is a defendant in various lawsuits. In the opinion of management and legal counsel, the outcome of these cases and resulting liability, if any, is either adequately covered by insurance or should not materially affect the Authority's financial position.

12. Concentration of Risk

All of the matching fund revenues are derived from federal excise taxation of the sale of rum produced in the Virgin Islands. For every proof gallon of rum produced in the Virgin Islands and exported to the U.S. mainland, \$10.50 is returned to the territory. In 1999, and as extended in subsequent years, the excise tax rebate was temporarily increased to \$13.25 per proof gallon. The current extension will expire on December 31, 2011. Rum production was by a single producer in 2010 (Cruzan). The construction of a second production facility (Diageo) was completed in November, 2010.

13. Pension Plan

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

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the United States Virgin Islands)
Notes to Financial Statements
September 30, 2010 and 2009

Pension Plan (continued)

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

Government and members contributions are set by statute. The Government's required contribution is 17.5%. Required member contributions are 8% of the annual salary for regular employees, 9% for senators, 11% for judges, and 10% for certain employees covered by Act 5226. The Government's contributions, together with the members' contributions and the income of the System should theoretically be sufficient to provide adequate actuarially determined reserves to cover the payment of the annuities and benefits provided by the System. The latest actuarial valuation as of September 30, 2006, indicates that the current combined statutory employer and employee contribution rates are not sufficient to meet the cost of the System on an actuarial reserve, as required by law. The System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained from the System's Administrator. The Authority's contribution to the System is 17.5% of each employee's regular salary and amounted to \$71,000 and \$76,000 in fiscal years 2010 and 2009, respectively.

14. Due to Government of the U.S. Virgin Islands

Due to Government of the U.S. Virgin Islands represents funds held by the Authority on behalf of the Government for the payment of construction projects and debt service payments. Due to Government of the U.S. Virgin Islands movement for the years ended September 30, 2010 and 2009 is as follows:

| | FY 2010 | | FY 2009 | |
|---|-------------------|-------------------|-------------------|-------------------|
| | Debt service fund | Construction fund | Debt service fund | Construction fund |
| Beginning balance | \$ 143,168,837 | \$ 271,212,273 | \$ 118,243,685 | \$ 141,238,948 |
| Funds received for debt service | 188,184,053 | - | 151,159,468 | - |
| Payments on behalf of the Government of the U. S. Virgin Islands | (85,303,295) | (397,743,086) | (88,341,444) | (163,621,413) |
| Interest income collected on behalf of the Government of the U. S. Virgin Islands | 4,945,492 | 1,160,827 | 1,787,734 | 803,854 |
| Payment of issuance costs | (19,075,270) | (69,807) | (8,990,610) | (1,617,651) |
| Other transactions: | | | | |
| Interest income on loans receivable | (81,115,752) | (485,173) | (59,659,463) | - |
| Change in loans receivable | (224,997,542) | - | (67,762,543) | - |
| Change in accrued income | (282,247) | - | - | - |
| Cash proceeds from issuance of bonds and notes payable | 653,095,026 | 372,718,049 | 96,732,012 | 294,408,533 |
| Cash defeasance of 1998 bonds | (377,025,000) | - | - | - |
| Ending balance | \$ 201,594,302 | \$ 246,793,083 | \$ 143,168,839 | \$ 271,212,271 |

VIRGIN ISLANDS PUBLIC FINANCE AUTHORITY
(a blended component of the Government of the United States Virgin Islands)
Notes to Financial Statements
September 30, 2010 and 2009

15. Subsequent Events

On October 9, 2010, the Authority authorized a \$45 million letter of credit facility with Banco Popular de Puerto Rico. The facility will be available to replace funds from the Government of the Virgin Islands' Insurance Guaranty Fund used for retroactive wage payments to Virgin Islands government employees in October 2010.

On April 29, 2011, the Authority entered into a Subordinated Revenue Bond Anticipation Note Purchase Agreement with Banco Popular de Puerto Rico, to purchase \$32,235,000 in Subordinated Revenue Bond Anticipation Notes (the "Series 2011A Notes"). The purpose of the Series 2011A Notes is to provide a loan to the Government of the Virgin Islands (the "Series 2011A Gross Receipts Loan Notes – Broadband Project"). The Government will use the proceeds to (i) finance the eligible costs in connection with upgrading the Virgin Islands' broadband technology, including development and construction of the infrastructure and roadwork and acquisition of equipment, and (ii) paying certain costs of issuing the Series 2011A Notes. The Series 2011A Notes have a term of one year, maturing on April 29th, 2012, with interest rates of 4.75% due quarterly. If long-term financing is not obtained before maturity, the Authority may convert the note to term notes, with principal and interest due monthly, at an interest rate of 6.25% and a maturity date of April 29th, 2017.

As noted in Note 9 the Authority received communication from the U.S. Department of Commerce regarding certain differences note in the operations and management of one of their federal grants.

The Authority has performed a review of subsequent events from October 1, 2010 through August 31, 2011, the date the financial statements were available to be issued, and concluded there were no events or transactions that occurred during this period that required recognition or disclosure in the financial statements other than the disclosed above.

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
Summarized Statement of Net Assets
September 30, 2010

| Description | Total from Business Type Activities | Grant Administration | Total From Investment and debt service Administration | Total |
|---|---|-------------------------|--|-------------------------|
| ASSETS | | | | |
| Current Assets: | | | | |
| Cash and cash equivalents | \$ 36,144,409 | \$ 47,755 | \$ - | \$ 36,192,164 |
| Restricted cash and cash equivalents | 1,915,257 | - | 77,779,779 | 79,695,036 |
| Restricted Investments, at fair value | - | - | 260,868,050 | 260,868,050 |
| Receivables, net | 600,034 | 344,000 | 38,628 | 982,662 |
| Restricted loans receivable from the Government of the U.S. Virgin Islands | - | - | 46,474,228 | 46,474,228 |
| Prepaid expenses and other assets | 790,039 | - | - | 790,039 |
| Total current assets | <u>39,449,739</u> | <u>391,755</u> | <u>385,160,685</u> | <u>425,002,179</u> |
| Noncurrent assets: | | | | |
| Restricted Investments, at fair value | - | - | 161,554,378 | 161,554,378 |
| Restricted loans receivable from the Government of the U.S. Virgin Islands | - | - | 1,737,464,547 | 1,737,464,547 |
| Bond discounts & issuance costs | 93,372 | - | 2,319,709 | 2,413,081 |
| Capital assets, net of depreciation | 47,399,235 | - | - | 47,399,235 |
| Total noncurrent assets | <u>47,492,607</u> | <u>-</u> | <u>1,901,338,634</u> | <u>1,948,831,241</u> |
| Total assets | <u>\$ 86,942,346</u> | <u>\$ 391,755</u> | <u>\$ 2,286,499,319</u> | <u>\$ 2,373,833,420</u> |
| LIABILITIES | | | | |
| Current Liabilities: | | | | |
| Accrued expenses and other liabilities | \$ 5,767,022 | \$ 54,059 | \$ - | \$ 5,821,081 |
| Loans payable related to capital assets | 658,541 | - | - | 658,541 |
| Notes payable | - | - | 3,922,700 | 3,922,700 |
| Deferred revenue | - | 47,576 | - | 47,576 |
| Bonds payable | - | - | 24,290,000 | 24,290,000 |
| Interest payable | - | - | 41,373,713 | 41,373,713 |
| Due to (from) other PFA funds | (973,257) | 1,297,350 | (324,093) | - |
| Total current liabilities | <u>5,452,306</u> | <u>1,398,985</u> | <u>69,262,320</u> | <u>76,113,611</u> |
| Noncurrent liabilities | | | | |
| Loans payable related to capital assets | 22,250,250 | - | - | 22,250,250 |
| Notes payable | - | - | 22,251,075 | 22,251,075 |
| Bonds payable (including a reduction of \$10,874,521 due to deferred amounts on defeased and refunded bonds) | - | - | 1,746,890,479 | 1,746,890,479 |
| Restricted assets held for Government of the U.S. Virgin Islands | 19,274,063 | - | 227,519,020 | 246,793,083 |
| Payable from restricted assets | 3,434,756 | - | 198,159,546 | 201,594,302 |
| Total noncurrent liabilities | <u>44,959,069</u> | <u>-</u> | <u>2,194,820,120</u> | <u>2,239,779,189</u> |
| Total Liabilities | <u>50,411,375</u> | <u>1,398,985</u> | <u>2,264,082,440</u> | <u>2,315,892,800</u> |
| NET ASSETS | | | | |
| Invested in capital assets, net of related debt | 26,499,073 | - | - | 26,499,073 |
| Restricted | - | 179 | 16,119,816 | 16,119,995 |
| Unrestricted | 10,031,898 | (1,007,409) | 6,297,063 | 15,321,552 |
| Total net assets | <u>\$ 36,530,971</u> | <u>\$ (1,007,230)</u> | <u>\$ 22,416,879</u> | <u>\$ 57,940,620</u> |

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
Statement of Net Assets - From Business Type Activities and Grant Administration
September 30, 2010

| Description | Administrative Services | The West Indian Company | King's Alley Management Inc. | Total from Business Type Activities | Grant Administration | Total from Business Type Activities and Grant Administration |
|--|-------------------------|-------------------------|------------------------------|-------------------------------------|-----------------------|--|
| ASSETS | | | | | | |
| Current Assets: | | | | | | |
| Cash and cash equivalents | \$ 32,672,734 | \$ 2,681,719 | \$ 789,956 | \$ 36,144,409 | \$ 47,755 | \$ 36,192,164 |
| Restricted cash and cash equivalents | - | 1,915,257 | - | 1,915,257 | - | 1,915,257 |
| Receivables, net | 33,750 | 566,284 | - | 600,034 | 344,000 | 944,034 |
| Prepaid expenses and other assets | - | 751,759 | 38,280 | 790,039 | - | 790,039 |
| Total current assets | <u>32,706,484</u> | <u>5,915,019</u> | <u>828,236</u> | <u>39,449,739</u> | <u>391,755</u> | <u>39,841,494</u> |
| Noncurrent assets: | | | | | | |
| Bond discounts & issuance costs | - | 93,372 | - | 93,372 | - | 93,372 |
| Capital assets, net of depreciation | - | 39,993,751 | 7,405,484 | 47,399,235 | - | 47,399,235 |
| Total noncurrent assets | <u>-</u> | <u>40,087,123</u> | <u>7,405,484</u> | <u>47,492,607</u> | <u>-</u> | <u>47,492,607</u> |
| Total assets | <u>\$ 32,706,484</u> | <u>\$ 46,002,142</u> | <u>\$ 8,233,720</u> | <u>\$ 86,942,346</u> | <u>\$ 391,755</u> | <u>\$ 87,334,101</u> |
| LIABILITIES | | | | | | |
| Current Liabilities: | | | | | | |
| Accrued expenses and other liabilities | \$ 905,084 | \$ 4,774,287 | \$ 87,651 | \$ 5,767,022 | \$ 54,059 | \$ 5,821,081 |
| Loans payable related to capital assets | - | 658,541 | - | 658,541 | - | 658,541 |
| Deferred revenue | - | - | - | - | 47,576 | 47,576 |
| Due to (from) other PFA funds | (1,616,815) | - | 643,558 | (973,257) | 1,297,350 | 324,093 |
| Total current liabilities | <u>(711,731)</u> | <u>5,432,828</u> | <u>731,209</u> | <u>5,452,306</u> | <u>1,398,985</u> | <u>6,851,291</u> |
| Noncurrent liabilities | | | | | | |
| Loans payable related to capital assets | - | 22,250,250 | - | 22,250,250 | - | 22,250,250 |
| Restricted assets held for Government of the U.S. Virgin Islands | 19,193,928 | - | 80,135 | 19,274,063 | - | 19,274,063 |
| Payable from restricted assets | 3,434,756 | - | - | 3,434,756 | - | 3,434,756 |
| Total noncurrent liabilities | <u>22,628,684</u> | <u>22,250,250</u> | <u>80,135</u> | <u>44,959,069</u> | <u>-</u> | <u>44,959,069</u> |
| Total Liabilities | <u>21,916,953</u> | <u>27,683,078</u> | <u>811,344</u> | <u>50,411,375</u> | <u>1,398,985</u> | <u>51,810,360</u> |
| NET ASSETS | | | | | | |
| Invested in capital assets, net of related debt | - | 19,093,589 | 7,405,484 | 26,499,073 | - | 26,499,073 |
| Restricted | - | - | - | - | 179 | 179 |
| Unrestricted | 10,789,531 | (774,525) | 16,892 | 10,031,898 | (1,007,409) | 9,024,489 |
| Total net assets | <u>\$ 10,789,531</u> | <u>\$ 18,319,064</u> | <u>\$ 7,422,376</u> | <u>\$ 36,530,971</u> | <u>\$ (1,007,230)</u> | <u>\$ 35,523,741</u> |

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
Statement of Net Assets - From Debt Service Administration
September 30, 2010

| Description | 2010 A & B | | 2009 A | | 2009 | | 2009B | | 2009A | | 2009A | | 2009A | | 2006 | | 2004 | | 2003 | | 1999 Series A | | 1998 Series | | Total From Investment and debt service Administration | | | |
|--|------------|----------------|---------------|---------------|--------------|---------------------|-----------------|--------------|----------|---------------|----------------|----------------|-------|--------------|--------|----------------|-------|----------------|---------|----------------|---------------|----------------|-------------|---------------|---|------------|---------------|------------------|
| | Bond | Series | Bond - Cruzan | Revenue | A1, A2, B, C | Revenue & Refunding | Working Capital | 2009A | TIR Bond | Anticipation | Bond - Diligoo | Revenue | Loan | Note | Series | Revenue | Bonds | Series A | Revenue | Bonds | Refunding | Series Bonds | Others | | | | | |
| ASSETS | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Current Assets: | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Restricted cash and cash equivalents | \$ | 4,226,734 | \$ | 1,675,913 | \$ | 19,705,972 | \$ | 100,607 | \$ | - | \$ | 8,351,337 | \$ | - | \$ | 11,838,167 | \$ | 5,670,044 | \$ | 13,095,104 | \$ | 12,070,041 | \$ | 430,805 | \$ | 615,055 | \$ | 77,779,779 |
| Restricted investments, at fair value | | 10,074,190 | | 29,633,650 | | 73,054,417 | | 2 | | 2,328,493 | | 60,371,539 | | 814,966 | | 2,798,089 | | 16,974,623 | | 19,643,301 | | 515,422 | | 44,059,752 | | - | | 280,868,050 |
| Receivables, net | | - | | - | | - | | 28,932 | | - | | - | | - | | - | | - | | - | | - | | - | | - | 38,628 | |
| Restricted loan receivable - Government of the U.S. Virgin Islands | | - | | 565,000 | | 8,460,000 | | 6,400,000 | | 10,031,528 | | - | | 1,472,911 | | 2,705,000 | | 3,605,000 | | 3,635,000 | | 6,850,000 | | - | | - | 46,474,228 | |
| Prepaid expenses and other assets | | - | | - | | - | | - | | - | | - | | - | | - | | - | | - | | - | | - | | - | - | |
| Total current assets | | 14,300,924 | | 31,874,593 | | 101,220,389 | | 6,529,541 | | 12,360,021 | | 69,722,876 | | 2,287,877 | | 17,341,256 | | 26,449,667 | | 36,373,405 | | 19,535,463 | | 44,490,557 | | 615,055 | | 385,160,685 |
| Noncurrent assets: | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Restricted investments, at fair value | | 39,790,161 | | 2,795,421 | | 46,744,943 | | - | | - | | 22,092,661 | | - | | - | | 7,723,426 | | 10,447,222 | | 25,960,544 | | - | | - | 161,554,378 | |
| Restricted loan receivable - Government of the U.S. Virgin Islands | | 399,950,000 | | 38,075,000 | | 441,920,000 | | - | | - | | 250,000,000 | | 5,819,547 | | 211,680,000 | | 71,430,000 | | 245,325,000 | | 74,165,000 | | - | | - | 1,737,464,547 | |
| Bond discounts & issuance costs | | - | | - | | - | | - | | - | | - | | - | | - | | - | | - | | 2,319,709 | | - | | - | 2,319,709 | |
| Total noncurrent assets | | 438,840,161 | | 40,870,421 | | 488,664,943 | | - | | - | | 277,092,661 | | 5,819,547 | | 211,680,000 | | 79,153,426 | | 261,772,222 | | 102,445,253 | | - | | - | 1,901,338,634 | |
| Total assets | | \$ 453,141,085 | | \$ 72,744,984 | | \$ 589,885,332 | | \$ 6,529,541 | | \$ 12,360,021 | | \$ 340,815,537 | | \$ 8,107,424 | | \$ 229,021,256 | | \$ 105,603,093 | | \$ 298,145,627 | | \$ 121,980,716 | | \$ 44,490,557 | | \$ 615,055 | | \$ 2,266,499,319 |

Virgin Islands Public Finance Authority

(a blended component of the Government)

Statement of Net Assets - From Debt Se

[illegible]

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
Summarized Statement of Revenues, Expenses and changes in Net Assets
Year ended September 30, 2010

| Description | Total from Business Type Activities | Grant Administration | Total From Investment and debt service Administration | Total |
|---|---|-------------------------|--|--------------|
| OPERATING REVENUES | | | | |
| Charges for services | \$ 8,800,819 | \$ - | \$ - | \$ 8,800,819 |
| Other operating revenues | 9,463,350 | - | - | 9,463,350 |
| Total operating revenues | 18,264,169 | - | - | 18,264,169 |
| OPERATING EXPENSES | | | | |
| General and administrative | 13,911,739 | 622,087 | 52,569 | 14,586,395 |
| Depreciation | 2,426,348 | - | - | 2,426,348 |
| Total operating expenses | 16,338,087 | 622,087 | 52,569 | 17,012,743 |
| Operating income(loss) | 1,926,082 | (622,087) | (52,569) | 1,251,426 |
| NONOPERATING REVENUES (EXPENSES) | | | | |
| Interest income: | | | | |
| Cash, cash equivalents and investments | 191,092 | 2,352 | 5,355,811 | 5,549,255 |
| Loans receivable | - | - | 85,779,723 | 85,779,723 |
| Other investment income | - | - | 193,716 | 193,716 |
| Budgetary allocation | 3,500,000 | - | - | 3,500,000 |
| Federal grants | 639,565 | 2,052,409 | - | 2,691,974 |
| Amortization of bond discounts & issuance costs | - | - | (3,970,822) | (3,970,822) |
| Amortization of deferred amount | - | - | (894,110) | (894,110) |
| Interest expense | (1,574,948) | - | (85,779,723) | (87,354,671) |
| Gain on sale of fixed assets | 4,336 | - | - | 4,336 |
| Impairment of capital assets | (1,454,845) | - | - | (1,454,845) |
| Contribution to the USVI Government | (700,000) | - | - | (700,000) |
| Total nonoperating income | 605,200 | 2,054,761 | 684,595 | 3,344,556 |
| Income (loss) before payments on behalf of the Government of the U.S. Virgin Islands | 2,531,282 | 1,432,674 | 632,026 | 4,595,982 |
| Payments on behalf of the Government of the Government of the U.S. Virgin Islands | (676,345) | (36,630) | (515,229) | (1,228,204) |
| Federal Grant Expenditures | - | (2,052,409) | - | (2,052,409) |
| Change in net assets | 1,854,937 | (656,365) | 116,797 | 1,315,369 |
| Total net assets-beginning | 34,676,034 | (350,865) | 22,300,082 | 56,625,251 |
| Total net assets-ending | \$ 36,530,971 | \$ (1,007,230) | \$ 22,416,879 | \$57,940,620 |

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
**Statement of Revenues, Expenses and changes in Net Assets - From Business Type Activities
and Grant Administration**
Year ended September 30, 2010

| Description | Administrative Services | The West Indian Company | King's Alley Management Inc. | Total from Business Type Activities | Grant Administration | Total from Business Type Activities and Grant Administration |
|---|----------------------------|-------------------------------|------------------------------------|---|-------------------------|--|
| OPERATING REVENUES | | | | | | |
| Charges for services | \$ - | \$ 8,186,658 | \$ 614,161 | \$ 8,800,819 | \$ - | \$ 8,800,819 |
| Other operating revenues | 9,463,350 | - | - | 9,463,350 | - | 9,463,350 |
| Total operating revenues | 9,463,350 | 8,186,658 | 614,161 | 18,264,169 | - | 18,264,169 |
| OPERATING EXPENSES | | | | | | |
| General and administrative | 6,776,024 | 6,545,435 | 590,280 | 13,911,739 | 622,087 | 14,533,826 |
| Depreciation | - | 1,905,670 | 520,678 | 2,426,348 | - | 2,426,348 |
| Total operating expenses | 6,776,024 | 8,451,105 | 1,110,958 | 16,338,087 | 622,087 | 16,960,174 |
| Operating income(loss) | 2,687,326 | (264,447) | (496,797) | 1,926,082 | (622,087) | 1,303,995 |
| NONOPERATING REVENUES (EXPENSES) | | | | | | |
| Interest income: | | | | | | |
| Cash, cash equivalents and investments | 134,336 | 55,415 | 1,341 | 191,092 | 2,352 | 193,444 |
| Budgetary allocation | 3,500,000 | - | - | 3,500,000 | - | 3,500,000 |
| Federal grants | - | 639,565 | - | 639,565 | 2,052,409 | 2,691,974 |
| Interest expense | - | (1,574,948) | - | (1,574,948) | - | (1,574,948) |
| Gain on sale of fixed assets | - | 4,336 | - | 4,336 | - | 4,336 |
| Impairment of capital assets | - | (1,454,845) | - | (1,454,845) | - | (1,454,845) |
| Contribution to the USVI Government | - | (700,000) | - | (700,000) | - | (700,000) |
| Total nonoperating revenue (expenses) | 3,634,336 | (3,030,477) | 1,341 | 605,200 | 2,054,761 | 2,659,961 |
| Income (loss) before payments on behalf of the Government of the U.S. Virgin Islands | 6,321,662 | (3,294,924) | (495,456) | 2,531,282 | 1,432,674 | 3,963,956 |
| Payments on behalf of the Government of the Government of the U.S. Virgin Islands | (676,345) | - | - | (676,345) | (36,630) | (712,975) |
| Federal Grant Expenditures | - | - | - | - | (2,052,409) | (2,052,409) |
| Change in net assets | 5,645,317 | (3,294,924) | (495,456) | 1,854,937 | (656,365) | 1,198,572 |
| Total net assets-beginning | 5,144,214 | 21,613,988 | 7,917,832 | 34,676,034 | (350,865) | 34,325,169 |
| Total net assets-ending | \$ 10,789,531 | \$ 18,319,064 | \$ 7,422,376 | \$ 36,530,971 | \$ (1,007,230) | \$ 35,523,741 |

Virgin Islands Public Finance Authority
(a blended component of the Government of the United States Virgin Islands)
Statement of Revenues, Expenses and changes in Net Assets - From Investment
and Debt Service Administration
Year ended September 30, 2010

| Description | 2010 A & B | | 2009 | | 2009B | | 2009A | | 2009A | | 2008 | | 2006 | | 2004 | | 2003 | | 1999 | | 1998 Series | | Total From | |
|--|-------------|---------------|--------------|-------------|-----------|---------------|-----------|--------------|-------------|-----------|--------------|---------------|---------------|----------------|---------------|-------|-------|-------|-------|-------|-------------|----------------|------------|-----------|
| | Bond | Bond - Cruzan | Bond | Notes | Note | Bond - Diageo | Note | Bonds | Bonds | Notes | Bonds | Bonds | Bonds | Bonds | Bonds | Bonds | Bonds | Bonds | Bonds | Bonds | Others | Administration | | |
| OPERATING EXPENSES | | | | | | | | | | | | | | | | | | | | | | | | |
| General and administrative | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 5,165 | \$ 52,569 | \$ 52,569 | \$ 52,569 |
| Total operating expenses | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 5,165 | (52,569) | (52,569) | |
| Operating loss | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (5,165) | | | |
| NONOPERATING REVENUES (EXPENSES) | | | | | | | | | | | | | | | | | | | | | | | | |
| Interest income: | | | | | | | | | | | | | | | | | | | | | | | | |
| Cash, cash equivalents and investments | 100,360 | 46,491 | 1,576,305 | 539,217 | 235,266 | 336,656 | - | 503,137 | 228,723 | - | 31,448 | 1,725,146 | 5,539 | 27,523 | 5,355,811 | | | | | | | | | |
| Loans receivable | 4,226,734 | 1,776,440 | 21,043,934 | 6,673,233 | 485,172 | 16,702,675 | 344,525 | 10,460,488 | 4,090,088 | 174,858 | 12,678,475 | 5,541,206 | 1,581,895 | - | 85,779,723 | | | | | | | | | |
| Other investment income | - | - | - | - | - | - | - | - | - | - | - | 105,307 | 88,409 | - | 193,716 | | | | | | | | | |
| Interest expense | (4,226,734) | (1,776,440) | (21,043,934) | (6,673,233) | (485,172) | (16,702,675) | (344,525) | (10,460,488) | (4,090,088) | (174,858) | (12,678,475) | (5,541,206) | (1,581,895) | - | (85,779,723) | | | | | | | | | |
| Amortization of bond discounts & issuance costs | (100,360) | (46,491) | (1,381,432) | (539,217) | (235,266) | (336,656) | - | (503,137) | (228,723) | - | (31,448) | (568,092) | - | - | (3,970,822) | | | | | | | | | |
| Amortization of deferred amount | - | - | (194,873) | - | - | - | - | - | - | - | - | (532,833) | (166,404) | - | (894,110) | | | | | | | | | |
| Total nonoperating revenue (expenses) | - | - | - | - | - | - | - | - | - | - | - | 729,528 | (72,456) | 27,523 | 684,595 | | | | | | | | | |
| Income (loss) before payments on behalf of the Government of the U.S. Virgin Islands | - | - | - | - | - | - | - | - | - | - | - | 729,528 | (119,860) | 22,358 | 632,026 | | | | | | | | | |
| Payments on behalf of the Government of the Government of the U.S. Virgin Islands | - | - | - | - | - | - | - | - | - | - | - | - | - | (515,229) | (515,229) | | | | | | | | | |
| Change in net assets | - | - | - | - | - | - | - | - | - | - | - | 729,528 | (119,860) | (492,871) | 116,797 | | | | | | | | | |
| Total net assets-beginning | - | - | - | - | - | - | - | - | - | - | - | 12,507,116 | 13,051,167 | (3,258,201) | 22,300,082 | | | | | | | | | |
| Total net assets-ending | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 13,236,644 | \$ 12,931,307 | \$ (3,751,072) | \$ 22,416,879 | | | | | | | | | |