Basic Financial Statements

Government of the United States Virgin Islands
Year Ended September 30, 2011
With Report of Independent Auditors

Ernst & Young LLP

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Government of the United States Virgin Islands

Basic Financial Statements

Year Ended September 30, 2011

Table of Contents

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Report of Independent Auditors

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Government of the United States Virgin Islands (the Government), as of and for the year ended September 30, 2011, which collectively comprise the Government's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Government's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units:

- The Virgin Islands Lottery (V.I. Lottery), a nonmajor enterprise fund, which represents 0.4%, and 3.6%, respectively, of the assets, and revenues of the aggregate remaining fund information, and 12.0%, 4.0%, and 30.4%, respectively, of the assets, net assets, and revenue of the business-type activities. The V.I. Lottery net deficit represents $1.6 million of the $1.3 billion net asset/fund balance of the aggregate remaining fund information.

- The Tobacco Settlement Financing Corporation, a blended component unit, which represents 0.2%, 0.2%, and 0.4%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information, and 1.0%, 0.7%, and 0.2%, respectively, of the assets, net deficit, and revenue of the governmental activities.

- The Employees' Retirement System of the Government of the Virgin Islands (GERS), a fiduciary component unit (pension trust fund), which represents 90.0%, 95.6%, and 26.1%, respectively, of the assets, net assets/fund balance, and revenue of the aggregate remaining fund information.

- The Virgin Islands Housing Authority (VIHA), Virgin Islands Public Television System (VIPTS), Virgin Islands Economic Development Authority (VIEDA), Magens Bay Authority (MBA), Virgin Islands Government Hospital and Health Facilities Corporation (Roy L. Schneider Hospital and Juan F. Luis Hospital and Medical Center), the Virgin Islands Housing Finance Authority (VIHFA), University of the Virgin Islands, and the Waste Management Authority (WMA), discretely presented component units, which collectively represent 41.0%, 50.0%, and 49.0%, respectively, of the assets, net assets, and revenue of the aggregate discretely presented component units.

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

Except as discussed in the following six paragraphs, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Government's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Government's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

The report of the other auditors on the 2011 financial statements of VIHFA, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether assets transferred from Department of Planning and Natural Resources of cash and cash equivalents of $17.0 million, investments of $4.4 million, and capital assets of $11.9 million were fairly stated.

The report of other auditors on the 2011 financial statements of VIPTS, a discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $5.9 million were fairly stated.

The report of other auditors on the 2011 financial statements of GERS, a fiduciary component unit (pension trust fund), was qualified because GERS maintained investments in a limited partnership valued at $52.9 million whose fair value has been estimated in the absence of a readily determinable fair value. GERS' estimate was based on information provided by the general partner of the limited partnership. The effect on the financial statements as a result of GERS' inability to document its procedures for determining fair value of the investment was not determinable.

The report of other auditors on the 2011 financial statements of the V.I. Lottery, a nonmajor enterprise fund, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether the amount due to the general fund of $4.5 million was fairly stated.

The report of other auditors on the 2010 financial statements of WMA, a nonmajor discretely presented component unit, was qualified because the auditors were unable to obtain sufficient audit evidence to determine whether capital assets of $79.4 million were fairly stated. As more fully described in Note 1 to the financial statements, the September 30, 2011 balances are supported by the 2010 audit report.

The Government did not maintain the requisite documentation to support its accrued retroactive liability of $195.3 million as of September 30, 2011 and the opening balances of its retroactive pay, landfill closure and post-closure costs and accrued compensated absences liabilities for fiscal year 2011. As a result, we were unable to obtain sufficient audit evidence to determine whether adjustments to these balances in the governmental activities were required.

The basic financial statements do not include a liability for medical malpractice claims in the reciprocal insurance fund (a non-major enterprise fund) and, accordingly, the Government has not recorded an expense for the current period change in that liability. The Government's records do not permit it, nor is it practical to extend our auditing procedures sufficiently to determine the extent by which the business-type activities, government insurance fund, and aggregate remaining fund information as of and for the year ended September 30, 2011 may have been affected by this condition.

Because of the matters discussed in the preceding paragraph of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial position of the business-type activities and aggregate remaining fund information as of September 30, 2011. In addition, we do not express an opinion on the changes in financial position of the business-type activities, government insurance fund, and aggregate remaining fund information and, where applicable, cash flows for the year ended September 30, 2011.

In our opinion, based on our audit and the reports of other auditors, except for the effect of the adjustments, if any, as might be determined to be necessary, had the other auditors been able to obtain sufficient audit evidence to determine whether (1) cash and cash equivalents of $17.0 million, investments of $4.4 million, and capital assets of $11.9 million in the financial statements of VIHFA, (2) capital assets of $5.9 million in the financial statements of VIPTS, (3) amount due to the general fund of $4.5 million in the V.I. Lottery financial statements, and (4) capital assets amounting to $79.4 million in the WMA financial statements were fairly stated as described above, and the effect of the adjustments, if any, as might be determined to be necessary, had we been able to obtain sufficient audit evidence to determine whether the opening balance of the accrued compensated absences liability, retroactively pay liability, and landfill closure and post-closure liability and the ending retroactive pay liability balance in the governmental activities were fairly stated as described in paragraph nine above, the financial statements referred to previously, present fairly, in all material respects, the respective financial position of the aggregate discretely presented component units and the governmental activities of the Government of the United States Virgin Islands, as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Finally, in our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund of the Government of the United States Virgin Islands, as of September 30, 2011, and the respective changes in financial position of the general fund, PFA debt service fund, PFA capital projects fund, and WICO; and respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As described more fully in Note 18 to the financial statements, as of October 1, 2010, the beginning net assets (deficit) of governmental activities and component units were restated by $61.3 million and $65.6 million, respectively.

As more fully described in Note 1, during the year ended September 30, 2011, the Government adopted Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2013, on our consideration of the Government's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, and the schedules of funding progress and employer contributions listed under required supplementary information in the table of contents are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst & Young LLP

June 28, 2013

Introduction

The following management's discussion and analysis presents an overview of the financial position and activities of the Government of the United States Virgin Islands (the Government) as of and for the fiscal years ended September 30, 2011 and 2010.

Government-wide Financial Statements

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

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

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

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

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

Fund Financial Statements

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

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

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

Governmental Funds

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

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

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

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

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

Proprietary Funds

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

The West Indian Company (WICO) fund and the Unemployment Insurance Fund are major proprietary funds.

The WICO fund accounts for the activities of WICO, which owns a port facility including a cruise ship pier, and manages a shopping mall complex on the island of St. Thomas.

The Unemployment Insurance Fund is a federally mandated program to manage unemployment insurance.

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

Fiduciary Funds

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

Financial Analysis of the Government as a Whole

The PG and its component units continue to experience a downturn in the economy following the economic recession of 2008.

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

In fiscal year 2011, the Government issued the 2010A Working Capital Notes in the amount of $131.4 million to pay the outstanding balance of the 2009B Working Capital Notes of $6.4 million, and to provide $125.0 million in working capital for various operating expenses. The Government also issued the Series 2011A Gross Receipts Tax Loan Notes in the amount of $32.2 million to upgrade Virgin Islands broadband technology infrastructure and equipment, and provided an additional $4.0 million to a private developer under the 2009A Tax Increment Note. During fiscal year 2011, the Government borrowed $10.4 million from the U.S. Treasury to fund Unemployment Trust Fund benefit payments.

Financial Analysis of the Primary Government

Total assets of the PG as of September 30, 2011 and 2010, were approximately $1.8 billion and $1.9 billion, respectively, a decrease of approximately $142.3 million. Total liabilities as of September 30, 2011 and 2010, were $3.0 billion and $2.9 billion, respectively, an increase of approximately $74.3 million.

As of September 30, 2011, the PG net deficit of $1.2 billion consisted of $256.9 million invested in capital assets, net of related debt; $218.0 million restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $1.7 billion. As of September 30, 2010, the PG net deficit of $953.2 million consisted of $264.9 million invested in capital assets, net of related debt; $1.0 billion restricted by statute or other legal requirements that were not available to finance day-to-day operations of the Government; and an unrestricted net deficit of $1.47 billion.

For the fiscal year ended September 30, 2011, the PG earned program and general revenue amounting to $1.2 billion and reported expenses of $1.4 billion, resulting in an increase in net deficit of $215.9 million.

For the fiscal year ended September 30, 2010, the PG earned program and general revenue amounting to $1.3 billion and reported expenses of $1.6 billion, resulting in an increase in net deficit of $218.8 million.

Overall, revenue decreased by approximately $122.4 million in fiscal 2011, when compared to fiscal 2010, mainly due to a decrease in tax revenue of $178.8 million, an increase in operating grants and revenue of approximately $71.5 million, an increase in capital grants of $11.1 million, and a reduction in other general revenue of $26.2 million. Expenses decreased in fiscal 2011 when compared to fiscal 2010, by $122.9 million.

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

Net Assets (Deficit) – Primary Government

September 30, 2011 and 2010
(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
		(Restated)				*(Restated)*
Assets						
Current assets	**$ 957,705**	$ 1,069,987	**$ (4,903)**	$ 5,846	**$ 952,802**	$ 1,075,833
Capital assets	**749,156**	765,231	**56,006**	51,294	**805,162**	816,525
Other assets	**40,289**	47,345	**82**	919	**40,371**	48,264
Total assets	**1,747,150**	1,882,563	**51,185**	58,059	**1,798,335**	1,940,622
Liabilities						
Long-term debt outstanding	**2,422,939**	2,476,792	**37,539**	56,933	**2,460,478**	2,533,725
Other liabilities	**515,590**	413,130	**55,549**	10,413	**571,139**	423,543
Total liabilities	**2,938,529**	2,889,922	**93,088**	67,346	**3,031,617**	2,957,268
Net Assets						
Invested in capital assets, net of related debt	**223,155**	234,576	**33,830**	30,394	**256,985**	264,970
Restricted	**216,015**	230,067	**2,078**	2,402	**218,093**	232,469
Unrestricted	**(1,630,549)**	(1,469,915)	**(77,811)**	(42,083)	**(1,708,360)**	(1,511,998)
Total net assets (deficit)	**$ (1,191,379)**	$ (1,005,272)	**$ (41,903)**	$ (9,287)	**$ (1,233,282)**	$ (1,014,559)

Changes in Net Assets (Deficit) – Primary Government

September 30, 2011 and 2010

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
		(Restated)				*(Restated)*
Revenue:						
Program revenue:						
Charges for services	**$ 35,632**	$ 45,511	**$ 50,069**	$ 51,517	**$ 85,702**	$ 97,028
Operating grants and contributions	**377,727**	295,577	**14,701**	25,257	**392,428**	320,834
Capital grants and contributions	**40,688**	29,541	**–**	–	**40,688**	29,541
General revenue:						
Taxes	**684,199**	863,063	**–**	–	**684,199**	863,063
Interest and other	**21,652**	36,525	**81**	108	**21,733**	36,633
Other general revenue	**2,124**	2,136	**–**	–	**2,124**	2,136
Total revenue	**1,162,022**	1,272,353	**64,851**	76,882	**1,226,873**	1,349,235
Expenses:						
General government	**495,458**	722,330	**–**	–	**495,458**	722,330
Public safety	**68,166**	71,526	**–**	–	**68,166**	71,526
Health	**143,558**	160,679	**–**	–	**143,558**	160,679
Public housing and welfare	**142,146**	139,689	**–**	–	**142,146**	139,689
Education	**298,610**	277,003	**–**	–	**298,610**	277,003
Transportation and communication	**86,505**	70,637	**–**	–	**86,505**	70,637
Culture and recreation	**12,252**	9,470	**–**	–	**12,252**	9,470
Interest on long-term debt	**99,340**	87,208	**–**	–	**99,340**	87,208
Unemployment insurance	**–**	–	**40,785**	26,005	**40,785**	26,005
West Indian Company	**–**	–	**9,779**	11,476	**9,779**	11,476
Workmen’s compensation	**–**	–	**13,223**	13,835	**13,223**	13,835
VI Lottery	**–**	–	**20,256**	20,495	**20,256**	20,495
Other	**–**	–	**12,724**	16,733	**12,724**	16,733
Total expenses	**1,346,035**	1,538,542	**96,767**	88,544	**1,442,802**	1,627,086
Changes in net assets (deficit) before transfers	**(184,013)**	(266,189)	**(31,916)**	(11,662)	**(215,929)**	(277,851)
Transfers	**700**	700	**(700)**	(700)	**–**	–
	700	700	**(700)**	(700)	**–**	–
Change in net deficit	**(183,313)**	(265,489)	**(32,616)**	(12,362)	**(215,929)**	(277,851)
Net assets (deficit) at beginning of year, as restated	**(1,005,274)**	(739,785)	**(9,287)**	3,075	**(1,014,561)**	(736,710)
Net assets (deficit) at end of year	**$ (1,188,587)**	$ (1,005,274)	**$ (41,903)**	$ (9,287)	**$ (1,230,490)**	$ (1,014,561)

The Virgin Islands Office of Management and Budget of the PG prepares an annual executive budget subject to approval by the Governor and the Legislature of the Virgin Islands. The executive budget is prepared on a budgetary basis similar to the cash basis of accounting. The executive budget includes only those funds that are subject to appropriation by law. More information regarding budgetary procedures is provided in Note 3 of the basic financial statements. A summary of the budgetary report for the General Fund of the PG, included on page 26 of the financial statements, follows:

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

Year Ended September 30, 2011

(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Total revenues	$ 572,322	$ 572,322	$ 636,775	$ 64,453
Total expenditures	743,733	781,948	830,083	(48,135)
Deficiency of revenues under expenditures	(171,411)	(209,626)	(193,308)	16,318
Other financing sources, net	209,626	209,626	227,174	17,548
Excess (Deficiency) of revenues and net other financing sources over expenditures	$ 38,215	$ –	$ 33,866	$ 33,866

For fiscal 2011, the PG realized a favorable budgeted revenue variance of $64.4 million mainly due to an increase in federal grants and contributions of $78.2 million, and a decrease of tax collections of $17.8 million. The PG realized a $65.3 million unfavorable expenditure variance due to increases in general government expenditures. The PG realized a $17.5 million variance in other financing sources due to transfers from other funds and the issuance of 2010 Series Notes.

Capital Assets

Capital assets additions during fiscal 2011 amounted to $39.5 million for governmental activities and $8.2 million for business-type activities.

Capital assets additions during fiscal 2010 amounted to $101.5 million for governmental activities and $2.0 million for business-type activities.

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

Capital Assets – Primary Government

(In thousands)

	Governmental Activities		Business-type Activities		Total	
	2011	**2010** *(Restated)*	**2011**	**2010**	**2011**	**2010** *(Restated)*
Land and improvements	**$ 198,240**	$ 195,327	**$ 5,495**	$ 5,495	**$ 203,735**	$ 200,822
Building and improvements	**410,954**	397,335	**66,434**	65,026	**477,388**	462,361
Machinery and equipment	**141,198**	134,978	**11,213**	8,420	**152,411**	143,398
Infrastructure	**223,884**	190,105	**–**	–	**223,884**	190,105
Construction in progress	**127,735**	147,773	**5,661**	1,640	**133,396**	149,413
Total capital assets	**1,102,011**	1,065,518	**88,803**	80,581	**1,190,814**	1,146,099
Less accumulated depreciation	**(352,855)**	(320,844)	**(32,797)**	(26,228)	**(385,652)**	(347,072)
Total capital assets, net	**$ 749,156**	$ 744,674	**$ 56,006**	$ 54,353	**$ 805,162**	$ 799,027

Note 10 provides detailed information regarding the capital assets of the primary government and the component units of the Government.

Debt Administration

The Government issues both general obligation bonds and revenue bonds. The Revised Organic Act [48 U.S.C. Section 1574 (b)(ii)] restricts the principal amount of general obligation debt that the Government may issue to no greater than 10% of the aggregate assessed valuation of taxable real property in the U.S. Virgin Islands. Following is a summary of bonds outstanding as of September 30, 2011:

Primary Government – Bonds Payable

(In thousands)

Bonds Payable	Maturity	Rates (%)	Balance
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	$ 399,050
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	38,640
2009 Series A-1, A-2, B & C Revenue and Refunding Bonds	2040	3.00 - 5.00	450,380
2009 Series A Revenue Bonds (Diageo)	2038	6.00 - 6.75	250,000
2006 Series A Revenue Bonds	2029	3.50 - 5.00	214,385
2006 Series A,B,C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2004 Series A Revenue Bonds	2025	4.00 - 5.25	75,235
2003 Series A Revenue Bonds	2033	4.00 - 5.25	248,960
2001 Series A Tobacco Bonds	2031	5.00	15,545
1999 Series A Revenue Bonds	2020	4.20 - 6.50	81,115
Subtotal			1,780,600
Deferred costs on refundings			(14,980)
Bond premium			31,341
Bond discount			(5,465)
Bond accretion			3,087
Total			$ 1,794,583

Note 11 provide detailed information regarding all bonds of the PG.

In fiscal year 2011, the Government issued the: (1) 2010A Working Capital Notes in the amount of $131.4 million to pay the outstanding balance of the 2009B Working Capital Notes of $6.4 million, and to provide $125.0 million in working capital for various operating expenses, (2) the Series 2011A Gross Receipts Tax Loan Notes in the amount of $32.2 million to upgrade the territory's broadband technology infrastructure and equipment, and (3) an additional $4.0 million to a private developer in St. Croix under the 2009A Tax Increment Note. During fiscal year 2011, the Government also borrowed $10.4 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

In fiscal year 2010, the Government issued the: (1) 2010 Series A and B Revenue Bonds amounting to $399.1 million to provide working capital to the PG and to refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (2) 2009 Series A Revenue Bonds (the "Cruzan Bonds") amounting to $39.2 million to finance the costs of a wastewater treatment facility and renovations at the Cruzan VIRIL, Ltd., and (3) 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds amounting to $458.8 million to fund certain capital projects and current refund the 1998 Series A bonds. The current refunding resulted in a saving of approximately $35.9 million and an economic gain of approximately $35.6 million. During fiscal year 2010, the Government also borrowed $13.1 million from the U.S. Treasury to fund deficits in the Virgin Islands Unemployment Trust Fund.

The PG made bond principal payments on all outstanding general and special revenue bonds amounting to $25.5 million during fiscal year 2011, and $412.1 million during fiscal year 2010.

The Government's bonds as of the date of this report carry insured ratings of "BBB" and "BBB+" from Fitch Ratings and Standard & Poor's, respectively. Ratings reflect only the respective views of the rating agencies and an explanation of the significance of each rating may be obtained from the respective rating agency.

Other liabilities of the PG include:

Primary Government – Other Liabilities

September 30, 2011 and 2010

(In millions)

	2011	2010
Accrued compensated absences	**$ 59**	$ 60
Retroactive union arbitration	**195**	232
Litigation	**27**	21
Post employment benefits	**201**	145
Landfill closure and post closure costs	**72**	173
Total other liabilities	**$ 554**	$ 631

Economic Condition and Outlook

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

Revenue Initiatives

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

In connection with a real property tax case instituted against the PG in the U.S. District Court of the Virgin Islands, the PG was enjoined from appraising and assessing any real property taxes until it modified its system of appraisal to comply with certain court mandates. The PG retained a consultant to modify its system of appraisal and to perform reassessment of properties. This project was completed in fiscal 2009. The U.S. District Court also required an over-haul of the tax review board responsible for hearing tax assessment reviews. The PG is taking steps to comply with the Court order. In fiscal 2010, the PG passed legislation authorizing the issuance of property taxes at the 1998 assessment level.

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

Budgetary Control of Expenditures

The PG faces the challenge of carryforward liabilities from prior fiscal years and increasing expenditures in fiscal 2011.

Carryforward liabilities consist mainly of retroactive salary increases, which accumulated following Hurricanes Hugo, Marilyn and Bertha in the years of 1990 through 1998. At September 30, 2011 and 2010, unpaid retroactive salary increase liabilities amounted to $195.3 and $231.8 million respectively, which is reported as a liability of the Government within other noncurrent liabilities.

Increasing expenditures in fiscal year 2011 included estimated landfill closure and post-closure expenses amounting to $64.4 million, and other postemployment benefit expense amounting to $56.2 million.

Other increasing general governmental expenditures include increasing health insurance premiums and pharmaceutical premiums.

Expenditures are closely monitored and controlled through the budgetary process.

Deficit Reduction Measures

In fiscal year 2011, the PG reported an unrestricted net deficit of $1.6 billion. In fiscal year 2010, the PG reported an unrestricted net deficit of $1.5 billion.

The PG has implemented a number of deficit reducing measures including: (1) withholding of local gross receipts taxes on Government invoice payments, (2) increasing local taxes such as property tax assessments on time-shares and gross receipts taxes; (3) exerting greater control of expenditures through the budgetary process, and (4) increasing collection efforts for amounts due to the PG from taxpayers.

Contacting the Government's Financial Management

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

Government of the United States Virgin Islands

Statement of Net Assets (Deficit)

September 30, 2011
(In thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 187,067	$ 4,223	$ 191,290	$ 77,878
Investments	427,107	2,378	429,485	11,999
Receivables, net	291,978	2,702	294,680	59,054
Internal balances	17,110	(17,110)	–	–
Due from component units	–	–	–	408
Notes and other receivables	–	–	–	18,505
Due from primary government	–	–	–	37,514
Due from federal government	19,920	–	19,920	9,025
Inventories	–	–	–	30,220
Other assets	4,616	826	5,442	11,254
Restricted:				
Cash and cash equivalent	1,272	2,078	3,350	77,335
Investments	8,635	–	8,635	85,279
Other	–	–	–	7,613
Capital assets, net	749,156	56,006	805,162	989,430
Deferred and other expenses	40,289	82	40,371	67,965
Total assets	1,747,150	51,185	1,798,335	1,483,479
Liabilities				
Accounts payable and accrued liabilities	118,370	2,797	121,167	161,294
Tax refunds payable	93,171	–	93,171	–
Unemployment insurance benefits	–	15,061	15,061	–
Customer deposits	–	–	–	24,354
Due to primary government	–	–	–	83,340
Due to component units	13,854	–	13,854	1,388
Due to federal government	–	–	–	5,047
Interest payable	47,772	591	48,363	5,575
Unearned revenue	125,600	597	126,197	7,752
Other current liabilities	7,502	31,443	38,945	16,917
Noncurrent liabilities:				
Due within one year:				
Notes payable	33,788	501	34,289	10,527
Bonds payable	51,518	–	51,518	11,588
Other liabilities	24,015	4,559	28,574	697
Due in more than one year:				
Line of credit payable	–	–	–	25,500
Notes payable	149,698	21,756	171,454	68,570
Bonds payable	1,743,065	–	1,743,065	271,351
Other liabilities	530,176	15,783	545,959	52,645
Total liabilities	2,938,529	93,088	3,031,617	746,545

(Continued)

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) (continued)

September 30, 2011
(In thousands)

	Primary Government			
	Governmental Activities	**Business-type Activities**	**Total**	**Component Units**
Net assets (deficit)				
Invested in capital assets, net of related debt	$ 223,155	$ 33,830	$ 256,985	$ 716,652
Restricted for:				
Unemployment insurance	–	144	144	–
Debt service	214,743	1,934	216,677	–
Capital projects	1,272	–	1,272	–
Other purposes	–	–	–	140,273
Unrestricted	(1,630,549)	(77,811)	(1,708,360)	(119,991)
Total net assets (deficit)	$ (1,191,379)	$ (41,903)	$ (1,233,282)	$ 736,934

See accompanying notes.

Government of the United States Virgin Islands

Statement of Activities

Year Ended September 30, 2011
(In thousands)

		Program Revenues			Net Revenue (Expense) and Changes in Net Assets			
					Primary Government			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Component Units
Functions:								
Primary government:								
Governmental activities:								
General government	$ 498,250	$ 31,716	$ 147,459	$ 14,475	$ (304,600)	$ –	$ (304,600)	$ –
Public safety	68,166	319	2,658	2,166	(63,023)	–	(63,023)	–
Health	143,558	254	46,222	4,464	(92,618)	–	(92,618)	–
Public housing and welfare	142,146	378	77,362	1,392	(63,014)	–	(63,014)	–
Education	298,610	1,050	101,993	132	(195,435)	–	(195,435)	–
Transportation and communication	86,505	473	2,033	18,059	(65,940)	–	(65,940)	–
Culture and recreation	12,252	1,442	–	–	(10,810)	–	(10,810)	–
Interest on long-term debt	99,340	–	–	–	(99,340)	–	(99,340)	–
Total governmental activities	1,348,827	35,632	377,727	40,688	(894,780)	–	(894,780)	–
Business-type activities:								
Unemployment insurance	40,785	2,814	14,599	–	–	(23,372)	(23,372)	–
West Indian Company	9,779	8,735	102	–	–	(942)	(942)	–
Workmen's compensation	13,223	7,871	–	–	–	(5,352)	(5,352)	–
VI Lottery	20,256	19,808	–	–	–	(448)	(448)	–
Other	12,724	10,841	–	–	–	(1,883)	(1,883)	–
Total business-type activities	96,767	50,069	14,701	–	–	(31,997)	(31,997)	–
Total primary government	1,445,594	85,701	392,428	40,688	(894,780)	(31,997)	(926,777)	–
Component units:								
Virgin Islands Housing Authority	45,892	6,192	33,815	13,199	–	–	–	7,314
Virgin Islands Port Authority	61,870	46,536	–	18,524	–	–	–	3,190
Virgin Islands Water and Power Authority:								
Electric system	311,886	279,455	–	5,002	–	–	–	(27,429)
Water system	27,120	37,568	–	4,150	–	–	–	14,598
V.I. Hospital and Health Facilities Corporation:								
Roy L. Schneider Hospital	93,585	55,975	28,308	26	–	–	–	(9,276)
Juan F. Luis Hospital	79,303	41,241	21,949	283	–	–	–	(15,830)
University of the Virgin Islands	82,955	18,736	56,160	3,992	–	–	–	(4,067)
Other component units	83,503	12,064	69,050	12,070	–	–	–	9,681
Total component units	786,114	497,767	209,282	57,246	–	–	–	(21,819)
Total primary government and component units					(894,780)	(31,997)	(926,777)	(21,819)

(continued)

Government of the United States Virgin Islands

Statement of Activities (continued)

Year Ended September 30, 2011
(In thousands)

	Net Revenue (Expense) and Changes in Net Assets — Primary Government: Governmental Activities	Business-type Activities	Total	Component Units
General revenues:				
Taxes	684,199	–	684,199	–
Interest and other	21,652	81	21,733	16,662
Tobacco settlement rights	2,124	–	2,124	–
Transfers – internal activities of primary government	700	(700)	–	–
Total general revenue	708,675	(619)	708,056	16,662
Changes in net assets (deficit)	(186,105)	(32,616)	(215,929)	(5,157)
Net assets (deficit), beginning of year, as restated	(1,005,274)	(9,287)	(1,014,561)	745,337
Net assets (deficit), end of year	$ (1,191,379)	$ (41,903)	$ (1,230,490)	$ 740,180

See accompanying notes.

Government of the United States Virgin Islands

Balance Sheet – Governmental Funds

September 30, 2011
(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Assets					
Cash and cash equivalents	$ 95,376	$ 3,574	$ 28,004	$ 61,385	$ 188,339
Investments	54,501	276,117	93,602	11,522	435,742
Receivables:					
Taxes, net	230,790	59,387	–	–	290,177
Accrued interest and other	48	–	–	151	199
Due from:					
Other funds	11,746	–	7,759	16,612	36,117
Federal government	–	–	–	19,920	19,920
Other assets	–	–	–	32	32
Total assets	$ 392,461	$ 339,078	$ 129,365	$ 109,622	$ 970,526
Liabilities and Fund Balances (Deficit)					
Accounts payable and accrued liabilities	$ 92,667	$ –	$ 1,856	$ 23,847	$ 118,370
Tax refunds payable	93,171	–	–	–	93,171
Due to:					
Other funds	15,229	–	–	3,778	19,007
Component units	13,853	–	–	–	13,853
Deferred revenue	245,977	124,336	–	3,500	373,813
Other current liabilities	5,402	–	–	2,100	7,502
Total liabilities	466,299	124,336	1,856	33,225	625,716
Fund balances (deficits):					
Restricted	–	214,743	127,509	91,776	434,028
Committed	29,571	–	–	34,006	63,577
Assigned	–	–	–	–	–
Unassigned	(103,408)	–	–	(49,385)	(152,793)
Total fund balances (deficit)	(73,837)	214,743	127,509	76,397	344,812
Total liabilities and fund balances (deficit)	$ 392,462	$ 339,079	$ 129,365	$ 109,622	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	749,156
Expenditures identified as related to a future, period recognized as a prepaid asset in the statement of net assets.	4,616
Deferred bond issue costs are not financial resources and, therefore, are not reported in the funds.	40,289
Other long-term assets, primarily taxes receivable, will not be available to pay for current period expenditures and, therefore, are deferred in the funds	249,780
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(47,772)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,532,260)
Deficit of governmental activities	$ (1,191,379)

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2011

(In thousands)

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total Governmental
Revenues:					
Taxes	$ 518,811	$ 195,551	$ 4,509	$ 12,360	$ 731,231
Federal grants and contributions	87,624	403	–	333,850	421,877
Charges for services	26,459	–	–	9,172	35,631
Tobacco settlement rights	–	–	–	2,094	2,094
Interest and other	3,882	4,139	281	13,350	21,652
Total revenues	636,776	200,093	4,790	370,826	1,212,485
Expenditures:					
Current:					
General government	386,954	–	76,548	80,246	543,748
Public safety	60,896	–	–	5,432	66,328
Health	99,197	–	–	43,286	142,483
Public housing and welfare	57,718	–	–	84,106	141,824
Education	189,153	–	–	103,266	292,419
Transportation and communication	27,603	–	265	29,802	57,670
Culture and recreation	8,562	–	–	1,541	10,103
Capital outlays	7,786	–	31,360	14,808	53,954
Debt service:					
Principal	6,400	24,290	3,922	1,300	35,912
Interest	3,012	89,040	433	832	93,317
Total expenditures	847,281	113,330	112,528	364,619	1,437,758
Excess (deficiency) of revenue over expenditures	(210,505)	86,763	(107,738)	6,207	(225,273)
Other financing sources (uses):					
Loans issued	131,400	816	35,419	–	167,635
Transfers from other funds	99,346	4	14,343	9,281	122,974
Transfers to other funds	(3,572)	(101,998)	(2,679)	(14,025)	(122,274)
Total other financing sources (uses), net	227,174	(101,178)	47,083	(4,744)	168,335
Net change in fund balances	16,669	(14,415)	(60,655)	1,463	(56,938)
Fund balance at beginning of year	(90,506)	229,158	188,164	74,934	401,750
Fund balance at end of year	$ (73,837)	$ 214,743	$ 127,509	$ 76,397	$ 344,812

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2011
(In thousands)

Net change in fund balances – total governmental funds	$	(56,938)
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current year.		21,813
Tax revenue in the statement of activities, which do not provide current financial resources, are not reported as revenue in the funds.		47,032
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. This is the amount by which debt loan and bond proceeds of $167.6 million exceeded debt repayments of $35.9 million.		(131,723)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year increased expenses reported in the statement of activities that do not require the use of current financial resources.		(50,090)
Some expenses reported as prepaid assets in the statement of net assets in the prior year are recognized as expenses in the current year in the statement of activities.		(4,616)
Bond issue costs are expended in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount of bond issuance costs amortized in the statement of activities.		(1,973)
Bond premiums and discounts are reported as other financing sources and uses in the governmental funds when the bonds are issued, and are capitalized and amortized in the government-wide financial statements. This amount represents additional net interest expense reported in the statement of activities related to the amortization of premiums, discounts deferred refunding loss, and accreted interest on capital appreciation bonds during the current year.		(793)
Certain interest reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in the governmental funds. This amount represents the increase in interest payable reported in the statement of net assets.		(6,025)
Change in net assets of governmental activities	$	(183,313)

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2011
(In thousands)

	Original Budget	Amended Budget	Actual	Variance
Revenues:				
Taxes	$ 536,676	$ 536,676	$ 518,810	$ (17,866)
Federal grants and contributions	9,417	9,417	87,624	78,207
Charges for services	12,662	12,662	26,459	13,797
Interest and other	13,567	13,567	3,882	(9,685)
Total revenues	572,322	572,322	636,775	64,453
Expenditures:				–
Current:				
General government	172,383	193,182	386,954	(193,772)
Public safety	139,896	140,255	60,896	79,359
Health	74,384	88,659	99,197	(10,538)
Public housing and welfare	65,891	66,016	57,718	8,298
Education	232,717	233,784	189,153	44,631
Transportation and communication	35,483	36,983	27,603	9,380
Culture and recreation	22,979	23,069	8,562	14,507
Total expenditures	743,733	781,948	830,083	(48,135)
Deficiency of revenues over expenditures	(171,411)	(209,626)	(193,308)	16,318
Other financing sources (uses):				
Loans Issued	125,000	125,000	131,400	6,400
Transfers from other funds	91,346	91,346	99,346	8,000
Transfer to other funds	(6,720)	(6,720)	(3,572)	3,148
Total other financing sources, net	209,626	209,626	227,174	17,548
Excess (deficiency) of revenues and net other financing sources over expenditures	$ 38,215	$ –	$ 33,866	$ 33,866

See accompanying notes.

Government of the United States Virgin Islands

Statement of Net Assets (Deficit) – Proprietary Funds

September 30, 2011
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	Unemployment Insurance	Other Enterprise	Totals
Assets				
Current assets:				
Cash and cash equivalents	$ 2,028	$ 746	$ 1,449	$ 4,223
Investments at fair value	–	–	2,378	2,378
Receivables, net:				
Premiums receivable	–	1,147	–	1,147
Other receivables	272	–	1,283	1,555
Due from other funds	–	–	739	739
Other assets	668	–	158	826
Total current assets	2,968	1,893	6,007	10,868
Noncurrent assets:				
Restricted cash and cash equivalents	1,934	144	–	2,078
Capital assets	38,567	–	17,439	56,006
Deferred expenses	82	–	–	82
Total noncurrent assets	40,583	144	17,439	58,166
Total assets	43,551	2,037	23,446	69,034
Liabilities				
Current liabilities:				
Accounts payable and accrued liabilities	1,278	591	6,341	8,210
Due to other funds	3,300	–	14,549	17,849
Unemployment insurance benefits	–	15,061	–	15,061
Unearned revenue	–	–	597	597
Workers compensation	–	–	4,559	4,559
Loan payable to U.S. Treasury	–	26,621	–	26,621
Loans payable related to capital assets	501	–	–	501
Total current liabilities	5,079	42,273	26,046	73,398
Noncurrent liabilities:				
Workers compensation	–	–	15,783	15,783
Loans payable related to capital assets	21,756	–	–	21,756
Total noncurrent liabilities	21,756	–	15,783	37,539
Total liabilities	26,835	42,273	41,829	110,937
Net assets (deficit)				
Invested in capital assets, net of related debt	16,391	–	17,439	33,830
Restricted	1,934	144	–	2,078
Unrestricted	(1,609)	(40,380)	(35,822)	(77,811)
Total net assets (deficit)	$ 16,716	$ (40,236)	$ (18,383)	$ (41,903)

See accompanying notes.

Government of the United States Virgin Islands

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

Year Ended September 30, 2011

(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	**Unemployment Insurance**	**Other Enterprise**	**Total**
Operating revenues:				
Charges for services	$ 8,735	$ 2,813	$ 38,520	$ 50,068
Total operating revenues	8,735	2,813	38,520	50,068
Operating expenses:				
Cost of services	6,349	40,179	44,986	91,514
Depreciation and amortization	1,918	–	1,217	3,135
Total operating expenses	8,267	40,179	46,203	94,649
Operating loss	468	(37,366)	(7,683)	(44,581)
Non-operating revenues (expenses):				
Federal assistance	102	14,599	–	14,701
Interest income	38	7	36	81
Interest expense	(1,511)	(606)	–	(2,117)
Total non-operating revenues (expenses), net	(1,371)	14,000	36	12,665
Loss before operating transfers	(903)	(23,366)	(7,647)	(31,916)
Transfers to other funds	(700)	–	–	(700)
Change in net assets	(1,603)	(23,366)	(7,647)	(32,616)
Net assets at beginning of year	18,319	(16,870)	(10,736)	(9,287)
Net assets (deficit) at end of year	$ 16,716	$ (40,236)	$ (18,383)	$ (41,903)

See accompanying notes.

Government of the United States Virgin Islands

Statement of Cash Flows – Proprietary Funds

Year Ended September 30, 2011
(In thousands)

	Business-type Activities – Enterprise Funds			
	West Indian Company	Unemployment Insurance	Other Enterprise	Total
Cash flows from operating activities				
Receipts from customers and users	$ 9,026	$ 2,661	$ 38,214	$ 49,901
Payments to beneficiaries, suppliers and employees	(6,966)	(27,498)	(33,530)	(67,994)
Net cash provided by (used in) operating activities	2,060	(24,837)	4,684	(18,093)
Cash flows from noncapital financing activities				
Federal grants	102	14,599	–	14,701
Net cash provided by (used in) noncapital financing activities	102	14,599	–	14,701
Cash flows from capital and related financing activities				
Acquisition and construction of capital assets	(652)	–	(7,618)	(8,270)
Disposal of capital assets	–	–	262	262
Issuance of long-term debt	–	10,496	–	10,496
Principal paid on long-term debt	(748)	–	–	(748)
Interest paid on long-term debt	(1,435)	(606)	–	(2,041)
Net cash provided by (used in) capital and related financing activities	(2,835)	9,890	(7,356)	(301)
Cash flows from investing activities				
Interest on investments	38	8	36	82
Sale of investments	–	–	855	855
Net cash provided by investing activities	38	8	891	937
Net decrease in cash and cash equivalents	(635)	(340)	(1,781)	(2,756)
Cash and cash equivalents at beginning of year	4,597	1,230	3,230	9,057
Cash and cash equivalents at end of year	$ 3,962	$ 890	$ 1,449	$ 6,301
Reconciliation of operating loss to net cash provided by (used in) operating activities				
Operating loss	$ 468	$ (37,366)	$ (7,683)	$ (44,581)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:				
Depreciation and amortization	1,918	–	1,217	3,135
Change in assets and liabilities:				
Receivables, net	477	(153)	(161)	163
Unearned revenue	10	–	14	24
Other assets	83	–	(84)	(1)
Accounts payable and accrued liabilities	(896)	592	1,658	1,354
Unemployment insurance benefits	–	12,090	–	12,090
Workers compensation	–	–	2,443	2,443
Due to other funds	–	–	7,280	7,280
Net cash provided by (used in) operating activities	$ 2,060	$ (24,837)	$ 4,684	$ (18,093)
Reconciliation of cash and cash equivalents to the statement of net assets				
Cash and cash equivalents – current	$ 2,028	$ 746	$ 1,449	$ 4,223
Cash and cash equivalents – restricted	1,934	144	–	2,078
Total cash and cash equivalents at end of year	$ 3,962	$ 890	$ 1,449	$ 6,301

See accompanying notes.

Government of the United States Virgin Islands

Statement of Fiduciary Net Assets – Fiduciary Funds

September 30, 2011
(In thousands)

	Pension Trust Fund	Agency Funds
Assets		
Cash and cash equivalents:		
Unrestricted	$ 112,444	$ 20,733
Restricted	17	–
Investments	1,177,582	8,316
Receivables, net:		
Loans and advances	139,470	–
Accrued interest	3,720	–
Other	8,604	
Other assets	18,665	–
Total assets	1,460,502	29,049
Liabilities		
Accounts payable and accrued liabilities	–	20,733
Cash overdraft with bank	3,203	–
Unsettled securities purchased	9,919	–
Securities lending collateral	166,343	–
Other liabilities	7,054	8,316
Total liabilities	186,519	29,049
Net assets held in trust for employees' pension benefits	$ 1,273,983	$ –

See accompanying notes.

Government of the United States Virgin Islands

Statement of Changes in Fiduciary Net Assets - Fiduciary Funds

Year Ended September 30, 2011
(In thousands)

	Pension Trust Fund
Additions:	
Contributions:	
Employer	$ 80,850
Plan members	42,997
Total contributions	123,847
Investment income:	
Net depreciation of fair value of investments	(17,597)
Net depreciation of fair value of real estate	(87)
Interest, dividends, and other, net	36,772
Real estate – net rental income	3,539
	22,627
Less investment expense	5,870
Net investment income	16,757
Other income	4,125
Total additions	144,729
Deductions:	
Benefits paid	202,900
Refunds of contributions	5,281
Administrative and operational expenses	14,853
Total deductions	223,034
Change in net assets	(78,305)
Net assets, beginning of year	1,352,288
Net assets, end of year	$ 1,273,983

See accompanying notes.

1. Summary of Significant Accounting Policies

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

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

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

Financial Reporting Entity

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

The Government financial reporting policy is to require current audited financial statements for major component units in order to support the Government's financial figures. However, due to the relevance of nonmajor component units in relation to the Government financial statements figures as a whole, nonmajor component units may provide audited financial statements up to one (1) year in arrears.

For fiscal year 2011, two nonmajor component units (Research & Technology Park and Waste Management Authority) provided audited financial statements in arrears. The Government included those 2010 audited financial statements as part of its fiscal year 2011 audited financial figures and disclosures.

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

(a) Blended Component Units

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

<u>Virgin Islands Public Finance Authority (PFA)</u>

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(a) Blended Component Units (continued)

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

Tobacco Settlement Financing Corporation (TSFC)

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

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

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

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

(b) Discretely Presented Component Units

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units

Virgin Islands Housing Authority (VIHA)

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

The Authority is governed by a board of commissioners which is autonomous to HUD. An executive director is appointed by the Authority's Board to manage the day-to-day operations of the Authority.

Given the nature of VIHA's operations and the significance of its relationship with the Government, management believes that its exclusion from the financial reporting entity would cause the Government's basic financial statements to be incomplete and misleading.

Virgin Islands Port Authority (VIPA)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

Virgin Islands Water and Power Authority (WAPA)

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

Virgin Islands Government Hospital and Health Facilities Corporation (VIGHHFC)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Major Component Units (continued)

University of the Virgin Islands (the University)

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

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units

Virgin Islands Economic Development Authority (EDA)

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

Magens Bay Authority (MBA)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Housing Finance Authority (VIHFA)

VIHFA was created as a body corporate and politic constituting a public corporation and autonomous governmental instrumentality of the Government by Act No. 4636 on October 20, 1981, with the purpose of stimulating low and moderate-income housing construction and home ownership through the issuance of revenue bonds to obtain funds to be used for low-interest mortgage loans to qualified purchasers of low and moderate-income housing. On October 31, 2008, VIHFA established the Virgin Islands Housing Management, Inc. (VIHM), a wholly owned not-for-profit subsidiary for the purpose of managing VIHFA's rental properties. The financial statements of VIHM are separately issued, and not blended into the PG. The powers of VIHFA are exercised by a board of directors consisting of the Commissioner of the Department of Housing, Parks, and Recreation (the Chairman), the Director of the Office of Management and Budget, and three persons not employed by the Government appointed by the Governor with advice and consent of the Legislature.

Virgin Islands Public Television System (VIPTS)

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(b) Discretely Presented Component Units (continued)

Nonmajor Component Units (continued)

Virgin Islands Waste Management Authority (VIWMA)

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

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

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

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

Administrative Offices

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

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

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

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

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

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

Magens Bay Authority
PO Box 10583
St. Thomas, VI 00801

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

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

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

Administrative Offices (continued)

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

All financial statements of the discretely presented component units have a fiscal year-end of September 30, 2011, except for WAPA and VIHA that have a year-end of June 30, 2011 and December 31, 2010, respectively.

(c) Fiduciary Component Unit

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

Employees' Retirement System of the Government of the Virgin Islands (GERS)

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

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

1. Summary of Significant Accounting Policies (continued)

Financial Reporting Entity (continued)

(c) Fiduciary Component Unit (continued)

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

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

Government-wide and Fund Financial Statements

The government-wide financial statements (that is, the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the PG and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the PG is reported separately from certain legally separate component units for which the PG is financially accountable. The statement of net assets (deficit) presents the reporting entities' nonfiduciary assets and liabilities, with the difference reported as net assets or net deficit. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

(a) Government-wide Financial Statements

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

(b) Governmental Fund Financial Statements

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

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

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

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

1. Summary of Significant Accounting Policies (continued)

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

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

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

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

Fund Accounting

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

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(a) Governmental Funds

The Government reports the following major governmental funds:

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

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

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

(b) Proprietary Funds

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

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

- Unemployment Insurance Fund – The unemployment insurance fund accounts for the collection of unemployment premiums from employers in the U.S. Virgin Islands, and the payment of unemployment benefits to eligible unemployed recipients.

1. Summary of Significant Accounting Policies (continued)

Fund Accounting (continued)

(c) Fiduciary Funds

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

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

Cash and Cash Equivalents

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

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

Investments

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

1. Summary of Significant Accounting Policies (continued)

Investment Policies

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

- ***Primary Government Investment Policies –*** Title 33, Chapter 117 of the Virgin Islands Code (V.I. Code) authorizes the Government to invest in U.S. Government and its agencies' obligations, mortgage-backed securities, repurchase agreements, commercial paper, local government obligations, and corporate debt and equity obligations. As of September 30, 2011, the General Fund, the Virgin Islands Lottery, a non-major governmental fund, and an agency fund had invested in certificates of deposit with two local banks. Investments are reported at fair value.

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

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

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

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

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

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

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

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

In December 4, 2009, GERS executed a loan agreement with Seaborne Virgin Islands, Inc., a seaplane service operating on the islands of St. Croix and St. Thomas. The agreement provided for a first lien term loan of $1.3 million at an initial interest rate of 8.25%, and a senior secured convertible loan of $2 million at an interest rate of 14.5%, secured by real and personal property of Seaborne Airlines, the unconditional guarantee of Coastal Airways, Inc., the parent company of Seaborne, and all of the issued and outstanding stock of Seaborne. On September 20, 2012 the parties agreed to an amendment/modification to the loan agreement and term note and provided for the modification of the convertible note. The original principal indebtedness of the term note was amended and restated to be $2.3 million with an interest rate of 6.25% per annum for the unpaid principal of the term note. The original principal indebtedness of the convertible note was amended and restated to be $1 million. The interest is accrued at the rate of 8.25% per annum payable quarterly in arrears until the maturity date. The note may be prepaid in whole or in part with a prepayment penalty of $300 thousand. As of September 30, 2011, the loan investment was $3.1 million.

On December 8, 2009, GERS executed a loan agreement with Carambola Northwest, LLC (“Carambola’), a condominium, hotel and golf resort on the island of St. Croix. The five year term loan in the amount of $15 million is collateralized with all real property holdings of Carambola, with an interest rate of 10.5% per annum. As of September 30, 2010, the loan investment amounted to $10.9 million. Carambola subsequently went into default on the loan agreement. On May 11, 2012, GERS exercised its rights under the loan agreement and executed a preliminary disposition agreement with Carambola assuming management of the resort complex. On November 2, 2012, GERS executed a final disposition agreement with Carambola, transferring all assets of Carambola to GERS in settlement of the loan agreement.

GERS has invested in a shopping and pier complex on the island of St. Thomas. The property is reported at fair market value. GERS owns administrative facilities on the islands of St. Thomas and St. Croix that are reported at historical cost, net of accumulated depreciation.

1. Summary of Significant Accounting Policies (continued)

Investment Policies (continued)

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

- ***The University Investment Policies*** **–** The board of trustees of this major component unit is responsible for the management of the University's investments which consist of U.S. Government securities and securities backed by the U.S. Government or its agencies and instrumentalities, common and preferred stocks, and mutual funds. The University is in the process of finalizing a formal investment policy for review and approval by the board of trustees. The University's component unit Foundation for the University of the Virgin Islands, issued an investment policy in February 2012. The members of the board of trustees of the Reichhold Foundation are responsible for their specific investment policy.

- ***VIGHHFC Investment Policies*** **–** The board of trustees of this major component unit have not developed a formal investment policy. At September 30, 2010, investments were comprised of a 40% interest in a U.S. Virgin Islands corporation that provides radiology services at Juan F. Luis Hospital and Medical Center. The investment in the U.S. Virgin Islands Corporation is accounted for under the equity method.

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

1. Summary of Significant Accounting Policies (continued)

Receivables

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

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

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

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

Members who have contributed to GERS for at least five years can borrow up to $18,000 for the purchase of an automobile. Auto loans bear interest at rates that range between 8.75% and 9.5% with a maximum term of five years. Active members may also borrow up to 75% of their contributions paid into GERS to a maximum borrowing of $50,000 as a personal loan. The interest rate offered on personal loans was 8% to 8.5% for the year. Retired members may qualify for personal loans up to $10,000 at the same interest rates as active members; however, effective fiscal year 2009, retirees have the option of refinancing their personal loan provided the original amount is paid down by at least 50%.

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

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

1. Summary of Significant Accounting Policies (continued)

Restricted Assets

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

Capital Assets

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

The PG defines capital assets as assets that have an initial, individual cost and useful lives of: (1) $5,000 for personal property with a useful life of five years; (2) $50,000 for buildings and building improvements with estimated useful lives of 40 years and 20 years, respectively; (3) $100,000 for land improvements with an estimated useful life of 20 years; and (4) $200,000 for infrastructure with an estimated useful life of 30 years. The value of all land acquired is capitalized.

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

1. Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

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

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

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

The capital assets of the component units are recorded in accordance with the applicable GASB and FASB statements and under their own individual capitalization thresholds. The estimated useful lives of capital assets reported by the component units are (1) 7 years to 50 years for buildings and building improvements; (2) 20 years to 40 years for airports and marine terminals; and (3) 3 years to 20 years for vehicles and equipment.

Tax Refunds Payable

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

Deferred and Unearned Revenue

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

1. Summary of Significant Accounting Policies (continued)

Long-term Liabilities

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

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

Fund Balance

Fund balances are reported in classifications provided by the Government Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement No. 54 provides a hierarchy of classifications based primarily on the extent to which the Government is bound to honor constraints on the specific purposes for which amounts in funds may be spent. Following are the fund classifications:

- ***Restricted Fund Balance –*** Fund balances constrained by externally imposed constraints such as constitutional provisions, laws and regulations, debt covenants and grantors. The Government's policy is to consider restricted amounts to have been spent when expenditures are incurred for which both restricted and unrestricted fund balances are available.

- ***Committed Fund Balance –*** Fund balances subject to constraints imposed by the Government's highest level of decision making authority including legislation enacted by the Legislature of the Virgin Islands, and resolutions or ordinances enacted by Government elected regulatory boards and authorities. Committed fund balances may be modified or rescinded by enacted legislation, or amendment of resolutions or ordinances.

1. Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

- ***Assigned Fund Balance –*** Fund balances subject to budgetary constraints of the Legislature, the Office of Management and Budget, or authorizing boards of the Government, that are not restricted or committed. Budgetary authority of the Office of Management and Budget is provided by Title 2, Sections 22, 23, 26 and 27 VIC, and Executive Order No. 371-1997. The Government's policy is to expend assigned or committed amounts, before unassigned amounts, when an expenditure is incurred.

- ***Unassigned Fund Balance –*** Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

- ***Nonspendable Fund Balance –*** The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form (such as inventories or prepaid amounts), or (b) legally or contractually required to be maintained intact (such as a permanent endowment fund).

Net Assets

Net assets are reported in three categories:

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

1. Summary of Significant Accounting Policies (continued)

Net Assets (continued)

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

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

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

Compensated Absences

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

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

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

1. Summary of Significant Accounting Policies (continued)

Interfund and Intra-entity Transactions

The Government has the following types of transactions among funds:

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

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

Risk Management

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

The Government does not maintain accounting records in support of individual claim liabilities or for claims incurred but not reported (IBNR). Accordingly, medical malpractice claims are accounted for on a cash basis. Therefore, the basic financial statements do not include a liability for medical malpractice claims outstanding, including related IBNR, as of September 30, 2011, as required by GAAP.

1. Summary of Significant Accounting Policies (continued)

Future Adoption of Accounting Requirements

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

Statement Number		Required in Fiscal Year
57	OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans	2012
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
63	Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position	2013
64	Derivative Instruments: Application of Hedge Accounting Termination Provisions-an Amendment of GASB Statement No. 53	2012
65	Items Previously Reported as Assets and Liabilities	2014
66	Technical Corrections - 2012 - an amendment of GASB Statement No. 10 and No. 62	2014
67	Financial Reporting for Pension Plans	2014
68	Accounting and Financial Reporting for Pensions	2015
69	Government Combinations and Disposals of Government of Government Operations	2015

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

2. Component Units

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

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

2. Component Units (continued)

Condensed financial information as of September 30, 2011, of all discretely presented component units follows (expressed in thousands):

			Virgin Islands Water and Power Authority		Virgin Islands Government Hospital and Health Facilities Corporation				
Information on net assets	**Virgin Islands Housing Authority**	**Virgin Islands Port Authority**	**Electric System**	**Water System**	**Roy L. Schneider Hospital**	**Juan F. Luis Hospital**	**University of the Virgin Islands**	**Other Entities**	**Total Component Units**
Assets:									
Current assets	$ 18,496	$ 26,346	$ 53,504	$ 8,108	$ 23,497	$ 12,022	$ 16,691	$ 18,555	$ 177,219
Due from primary government	–	145	25,051	2,245	–	–	1,884	8,189	37,514
Due from federal government	850	1,270	–	1,085	–	887	3,493	1,440	9,025
Restricted assets	1,531	10,936	55,488	12,267	574	1,617	46,862	40,952	170,227
Capital assets, net	72,322	248,980	296,736	65,182	60,779	43,117	54,667	147,647	989,430
Deferred expenses	–	1,066	58,312	8,587	–	–	–	–	67,965
Other noncurrent assets	60	–	52	33	495	2,807	10,197	18,455	32,099
Total assets	93,259	288,743	489,143	97,507	85,345	60,450	133,794	235,238	1,483,479
Liabilities:									
Current liabilities	4,115	11,178	107,137	9,278	24,362	36,249	4,679	11,142	208,140
Due to primary government	–	–	–	–	30,762	52,578	–	–	83,340
Due to federal government	–	–	5,047	–	–	–	–	–	5,047
Due to other component units	–	–	–	–	–	–	–	1,388	1,388
Bonds payable	–	32,836	226,101	21,592	–	–	–	2,410	282,939
Notes payable	–	1,515	36,520	–	–	–	39,062	2,000	79,097
Line of credit payable	–	–	23,000	2,500	–	–	–	–	25,500
Deferred revenue	41	–	–	–	–	–	3,693	4,018	7,752
Other noncurrent liabilities	7,376	–	23,570	5,371	–	237	5,298	11,490	53,342
Total liabilities	11,532	45,529	421,375	38,741	55,124	89,064	52,732	32,448	746,545
Net assets (deficit):									
Invested in capital assets, net of related debt	66,391	216,144	143,616	46,794	60,779	42,880	25,523	114,525	716,652
Restricted	1,800	10,936	24,962	11,191	1,773	1,617	39,030	48,964	140,273
Unrestricted (deficit)	13,536	16,134	(100,810)	781	(32,331)	(73,111)	16,509	41,501	(119,991)
Total net assets	$ 81,727	$ 243,214	$ 67,768	$ 58,766	$ 30,221	$ (28,614)	$ 81,062	$ 204,990	$ 736,934

2. Component Units (continued)

Information on statements of activities	Expenses	Program revenue: Charges for Services	Program revenue: Operating Grants and Contributions	Program revenue: Capital Grants and Contributions	Total Component Units
Virgin Islands Housing Authority	$ 45,892	$ 6,192	$ 33,815	$ 13,199	$ 7,314
Virgin Islands Port Authority	61,870	46,536	–	18,524	3,190
Virgin Islands Water and Power Authority:					
Electric System	311,886	279,455	–	5,002	(27,429)
Water System	27,120	37,568	–	4,150	14,598
Virgin Islands Government Hospital and Health Facilities Corporation:					
Roy L. Schneider Hospital	93,585	55,975	28,308	26	(9,276)
Juan F. Luis Hospital	79,303	41,241	21,949	283	(15,830)
University of the Virgin Islands	82,955	18,736	56,160	3,992	(4,067)
Other component units	83,503	12,064	69,050	12,070	9,681
Total activities	$ 786,114	$ 497,767	$ 209,282	$ 57,246	(21,819)
General revenue:					
Interest and other					16,662
Changes in net assets					(5,157)
Net assets at beginning of year *(as restated)*					742,091
Net assets at end of year					$ 736,934

3. Stewardship, Compliance, and Accountability

Budgetary Process and Control

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

3. Stewardship, Compliance, and Accountability (continued)

Budgetary Process and Control (continued)

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

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

Budget/GAAP Reconciliation

The following schedule presents a comparison of the general fund legally adopted budget with actual data on a budgetary basis. Because accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of timing and entity difference in the excess (deficiency) of revenue and net other financing sources over expenditures for the year ended September 30, 2011, is presented below (expressed in thousands):

Excess of revenues and net other financing sources over expenditures	$ 33,866
Entity difference – deficiency of revenues and net other financing over expenditures – activities with budgets not legally adopted	(17,197)
Excess of revenues and net other financing sources over expenditures – GAAP basis (net change in fund balance)	$ 16,669

3. Stewardship, Compliance, and Accountability (continued)

Budget/GAAP Reconciliation (continued)

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

4. Cash and Cash Equivalents

Primary Government

At September 30, 2011, the PG reported $191.2 million in unrestricted cash and cash equivalents, and $3.3 million in restricted cash and cash equivalents. All of the PG's bank balances were fully collateralized.

Pension Trust Fund

GERS considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. At September 30, 2011, GERS held $112.4million in cash and cash equivalents consisting of: $71 million in money market accounts, $41.4 million in operational accounts.

Component Units

At September 30, 2011, component units held $77.8 million in unrestricted cash and cash equivalents and $77.3 million in restricted cash and cash equivalents, of which $3.5 million was not insured, bonded or collateralized as required for public funds of the Government.

5. Investments

Primary Government Investments

Following is a summary of the investments of the PG, categorized by investment type and maturity as of September 30, 2011:

Primary Government Investments
(in thousands)

		Maturity (in years)		
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**Over 5 Years**
Investments with contractual maturities				
Certificates of Deposit	$ 11,013	$ 11,013	$ –	$ –
Portfolio investments				
Commercial Paper	39,549	39,160	–	389
U.S. Government Agencies & Notes	45,171	18,171	27,000	–
Total investments with contractual maturities	95,733	$ 68,344	$ 27,000	$ 389
Investments without contractual maturities				
Money Market & Mutual Funds	342,387			
Total Primary Government Investments	$ 438,120			

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

5. Investments (continued)

Primary Government Investments (continued)

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

At September 30, 2011, the PG's investments in money market funds were rated AAAm by Standard & Poor's, and Aaa-mf by Moody's Investor Service; PG's investment in commercial securities were rated A- by Standard & Poor's, and A2 by Moody's Investor Services; and the PG's investment in U.S. government agencies were rated AA+ by Standard & Poor's and Aaa by Moody's Investor Services.

Concentration of Credit Risk **–** The PG places no limit on the amount that may be invested in one issuer. At September 30, 2011, more than 5% of the PG's investments were invested in: Goldman Financial Square Money Market #524 (49.52%), Goldman Financial Securities Money Market #474 (12.22%), Silver Tower Funding, LLC CP (8.03%), and Invesco Treasury (8.38%).

Custodial Credit Risk **–** The PG does not have a custodial risk policy. This is the risk that the PG will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2011, $438.1 million of investments were held in the name of The Bank of New York Trust Company, N.A, as trustee for the Government.

5. Investments (continued)

Pension Trust Fund Investments

Following is a summary of pension trust fund investments as of September 30, 2011:

Pension Trust Fund Investments

(In thousands)

		Maturity (in years)			
	Fair Value	**Less Than 1 Year**	**1 to 5 Years**	**6 to 10 Years**	**More Than 10 Years**
Investments with contractual maturities					
US government and agency obligations	$ 24,393	$ 6,221	$ 12,626	$ 2,135	$ 3,411
US Treasury notes	45,332	–	18,421	26,911	–
US Treasury bonds	25,655	–	–	1,867	23,788
Municipals	7,721	–	1,893	1,548	4,280
Corporate obligations	74,604	2,167	34,043	23,970	14,424
Foreign bonds	8,310	–	4,755	3,555	–
Government obligations - foreign	53,410	10,713	17,667	7,041	17,989
Mortgage and asset backed securities	71,333	–	2,618	4,415	64,300
Investment loan	18,613	–	18,613	–	–
Total investments with contractual maturities	329,371	$ 19,101	$ 110,636	$ 71,442	$ 128,192
Investments without contractual maturities					
Equity Securities					
Common stocks - U.S.	418,529				
Common stocks - foreign	68,296				
Real Estate Investments					
Real estate investment trusts	3,810				
Havensight Mall - US Virgin Islands	66,600				
GERS Complex - US Virgin Islands	30,210				
Limited partnership	52,915				
Securities lending short-term collateral investment pool	166,343				
Mutual funds	13,536				
Certificates of deposit	27,972				
Total pension fund investments	$ 1,177,582				

5. Investments (continued)

Pension Trust Fund Investments (continued)

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

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

5. Investments (continued)

Pension Trust Fund Investments (continued)

The credit ratings of GERS debt and equity securities include:

Pension Trust Fund Investment Credit Ratings
(in thousands)

		Credit Ratings	
	Fair Value	**Standard & Poor**	**Moody's**
US government and agency obligations	$ 737	A	AA2
US government and agency obligations	1,015	A-	AA1
US government and agency obligations	15,113	AA+	AAA
US government and agency obligations	7,528	Not Rated	Not Rated
US Treasury notes	45,332	AAA	AAA
US Treasury bonds	25,655	Not Rated	Not Rated
Corporate obligations	74,604	BBB- to AAA	BAA3 to AAA
Foreign bonds	6,952	AAA	AAA
Foreign bonds	249	A-	BAA1
Foreign bonds	1,109	Not Rated	Not Rated
Government obligations - foreign	10,342	AA- to AA+	AA2 to AA1
Government obligations - foreign	37,561	AAA	AAA
Government obligations - foreign	5,507	Not Rated	Not Rated
Municipals	5,786	A- to AA-	A2 to AA2
Municipals	714	AA1	AAA
Municipals	1,221	BB- to BBB	B3 to BAA3
Mortgage and asset backed securities	3,043	D to AA+	C to AA1
Mortgage and asset backed securities	60,323	AAA	AAA
Mortgage and asset backed securities	7,967	Not Rated	Not Rated
Common stocks- US	418,529	Not Rated	Not Rated
Common stocks - foreign	68,296	Not Rated	Not Rated
Real estate investment trust	1,397	Not Rated	Not Rated
Real estate investment trust	2,413	Not Rated	Not Rated
Real estate holdings - US Virgin Islands	96,810	Not Rated	Not Rated
Investment loans	18,613	Not Rated	Not Rated
Limited partnership	52,915	Not Rated	Not Rated
Securities lending short-term collateral investment pool	166,343	Not Rated	Not Rated
Mutual funds	13,536	Not Rated	Not Rated
Certificate of deposit	27,972		
Total investments	$ 1,177,582		

5. Investments (continued)

Pension Trust Fund Investments (continued)

***Custodial Credit Risk* –** The custodial credit risk for investments is the risk that, in the event of the failure of a depository financial institution or other counterparty, GERS will not be able to recover the value of an investment or collateral securities that are in the possession of an outside party. With the exception of underlying securities on-loan amounting to $5.8 million, secured by non-cash collateral, the entire investment portfolio of GERS was held with a single third-party custodian on behalf of GERS as of September 30, 2011. Cash collateral held for securities lending transactions is invested in a collective investment pool maintained by the securities lending agent.

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

As of September 30, 2011, $130.2 million of GERS' portfolio was held in foreign currencies, with $39.7 million held in Euro, $26.8 million held in pound sterling, $16.0 million held in Australian dollars, $10.7 million held in Japanese yen, $7.8 million held in Swiss francs, $6.3 million held in Canadian dollars, $5.5 million held in Mexican peso, $4.0 million held in Norwegian krone, $3.3 million held in New Zealand dollar, $2.0 million held in Hong Kong dollars, and $8.1 million in other currencies. GERS entered into various forward currency exchange contracts to manage exposure to changes in foreign currency exchange rates, and to facilitate the settlement of foreign security transactions. Risks associated with foreign exchange contracts include the movement in the value of foreign currency relative to the U.S. dollar and the ability of the counterparty to perform in accordance with the terms of the contract. Changes in the market value of open and closed forward contracts are recorded with interest, dividends, and other income or losses reported at fair value. During the fiscal year ended September 30, 2011, GERS reported $41.3 million in forward currency purchases, $39.2 million in forward currency sales, and a foreign exchange loss of $3.1 million.

5. Investments (continued)

Pension Trust Fund Investments (continued)

***Securities Lending Transactions* –**The Government's statutes permit GERS to participate in securities lending transactions, and GERS has, via a securities lending authorization agreement (the Agreement), authorized State Street Bank and Trust Company (the Custodian) to lend its securities to broker-dealers and banks pursuant to a form of loan agreement. Lent securities are collateralized with cash, securities issued or guaranteed by the U.S. government, or irrevocable bank letters of credit. GERS does not have the ability to pledge or sell collateral securities delivered absent a borrower default. No restrictions were imposed during 2011 as to the amount of loans the Custodian can make on behalf of GERS. Under the terms of the Agreement the Custodian must indemnify the Government for losses attributable to violations by the Custodian under the "standard of care" clause described in the Agreement. There were neither such violations during fiscal years 2011 or 2010, nor losses resulting from the default of the borrowers or the Custodian.

Loans are generally terminable on demand. The collateral received shall, in the case of loaned securities denominated in U.S. dollars or whose primary trading market is located in the U.S. or sovereign debt issued by foreign governments, have a market value of 102% of the market value of the security for domestic borrowers and 105% for foreign borrowers at the inception of the securities lending transaction. Such collateral should be kept at a minimum of 100% of the market value of the security for all borrowers throughout the outstanding period of the transaction. At September 30, 2011, approximately $165.9 million of U.S. government and agency securities, fixed income, and equity corporate securities were on loan. The cash collateral received with a corresponding liability of an equal amount is recorded in the statement of fiduciary net assets. The cash collateral received on each loan was invested, together with the cash collateral of other lenders, in a collective investment pool. As of September 30, 2011, such investment pool had a weighted average maturity of 13 days and an average expected maturity of 133 days. Because the loans were terminable on demand, their duration did not generally match the duration of the investments made with cash collateral.

5. Investments (continued)

Component Unit Investments

Following is a summary of component unit investments and maturities as of September 30, 2011:

Component Unit Investments
(in thousands)

		Maturity (in years)			
	Fair Value	Less Than 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years
Investments with contractual maturities					
Certificates of deposit	$ 19,857	$ 17,035	$ 2,822	$ –	$ –
Mortgage backed securites	3,218	–	–	–	3,218
Corporate bonds	5,569	–	1,000	733	3,836
Guaranteed investment contracts	139	–	–	–	139
U.S. Government agencies and notes	37,872	20,914	15,195	–	1,763
Total investments with contractual maturities	66,655	$ 37,949	$ 19,017	$ 733	$ 8,956
Investments without contractual maturities					
Common stock	8,592				
Mutual funds	22,031				
Total component unit investments	$ 97,278				

5. Investments (continued)

Component Unit Investments (continued)

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

Credit Risk – The authorizing legislation of the component units does not limit investments by credit rating categories. Authorizing legislation limits the investment choices of the component units, as described in Note 1. The University of the Virgin Islands' investments includes corporate bonds amounting to $4.8 million with ratings of A- to BBB by Standard & Poor's.

Custodial Credit Risk – The component units of the Government do not have custodial credit risk policies. This is the risk that the component unit will not be able to recover the value of its investments that are held in the possession of an outside party.

6. Receivables

Primary Government Receivables

Receivables for governmental funds at September 30, 2011, consist of the following (expressed in thousands):

	General	PFA Debt Service	Total
Income taxes	$ 193,409	$ –	$ 193,409
Real property taxes	236,114	–	236,114
Hotel occupancy taxes	1,820	–	1,820
Excise taxes	1,252	–	1,252
Gross receipts taxes	–	133,446	133,446
Tax receivables	432,595	133,446	566,041
Less allowance for doubtful accounts	(201,805)	(74,059)	(275,864)
Net tax receivables	$ 230,790	$ 59,387	290,177
Other long-term receivables – tobacco settlement rights and other			1,801
Total receivables reported in the statement of net assets (deficit)			$ 291,978

6. Receivables (continued)

Primary Government Receivables (continued)

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

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

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

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

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

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

6. Receivables (continued)

Primary Government Receivables (continued)

For businesses with gross receipts of $120,000 per annum or less, gross receipts taxes are levied on an annual basis based on the amount of gross receipts in excess of $9,000 per month. Businesses with annual gross receipts greater than $120,000, but less than $225,000, are levied on a monthly basis, based on the amount of gross receipts in excess of $9,000 per month. Businesses with annual gross receipts of more than $225,000 are levied on a monthly basis, based on all gross receipts, with no $9,000 per month exemption.

Gross receipts tax assessment rates, applied to taxable gross receipts, were as follows:

October 1, 2010 through April 30, 2011:	4.0%
June 1, 2011 through February 28, 2012:	4.5%
March 1, 2012 and thereafter:	5.0%

Monthly gross receipts tax filings are due within 30 calendar days following the last day of the calendar month collected. Annual gross receipts tax filings are due within 30 calendar days following the last day of the calendar year.

Component Unit and Pension Trust Fund Receivables

Component unit receivables at September 30, 2011, consist of the following (expressed in thousands):

Utility service charges	$ 22,485
Port fees	3,060
Students	2,221
Patients	24,974
Other	6,314
Total	$ 59,054

6. Receivables (continued)

Component Unit and Pension Trust Fund Receivables (continued)

Loans and advances receivable, net at September 30, 2011, consist of the following (expressed in thousands):

	Fiduciary Funds Pension Trust	Component Units
Mortgage loans	$ 8,458	$ –
Personal loans	131,608	–
Other loans and advances	171	49
Subtotal	140,237	49
Less allowance for uncollectible accounts	(767)	(49)
Loans and advances receivable, net	$ 139,470	$ –

7. Deferred Revenue

The components of deferred revenue for the general fund as of September 30, 2011, consist of the following (expressed in thousands):

Property tax	$ 137,956
Matching excise tax	48,349
Income tax	59,672
	$ 245,977

8. Interfund Transactions

Interfund transfers for the year ended September 30, 2011, consisted of the following (expressed in thousands):

Transfers to	General	PFA Debt Service	PFA Capital Projects	West Indian Company	Nonmajor Governmental	Total
General	$ –	$ 96,146	$ 1,500	$ 700	$ 1,000	$ 99,346
PFA Debt Service	4	–	–	–	–	4
PFA capital projects	–	1,318	–	–	13,025	14,343
Nonmajor governmental	3,568	4,534	1,179	–	–	9,281
West Indian Company	–	–	–	–	–	–
Total	$ 3,572	$101,998	$ 2,679	$ 700	$ 14,025	122,974

Transfer from	General	PFA Debt Service	PFA Capital Projects	West Indian Company	Nonmajor Governmental	Total
General	$ –	$ 4	$ –	$ –	$ 3,568	$ 3,572
PFA Debt Service	96,146	–	1,318	–	4,534	101,998
PFA Capital Projects	1,500	–	–	–	1,179	2,679
Nonmajor governmental	1,000	–	13,025	–	–	14,025
West Indian Company	700	–	–	–	–	700
Total	99,346	4	14,343	–	9,281	122,974

Interfund transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. The most significant transfers to the general fund from other governmental funds include a $96.1 million transfer from the PFA Debt Service Fund (a major governmental fund) representing gross receipt tax revenue in excess of bond service requirements, and a $13.0 million transfer from a non-major debt service fund, the PFA Operating Fund, to the PFA Capital Projects Fund, representing reprogrammed investment income.

Significant transfers made from the General Fund include a transfer of $2.0 million to the St. Croix Capital Improvement Fund (a non-major governmental fund) and a transfer of $1.0 million to the Crisis Intervention Fund (a non-major governmental fund).

Significant transfers from the PFA Debt Service Fund include a transfer of $4.5 million to the PFA Operating Fund (a non-major governmental fund), representing interest earned from unexpended bond proceeds, and $1.3 million to the PFA Capital Projects Fund.

8. Interfund Transactions (continued)

Due From/To Other Funds

The following table summarizes interfund receivables and payables at September 30, 2011 (expressed in thousands):

Due from other funds	General	PFA Debt Service	PFA Capital Projects	Nonmajor Governmental	West Indian Company	Nonmajor Enterprise	Total
General	$ –	$ –	$ –	$ 3,778	$ 3,300	$ 4,668	$ 11,746
PFA Debt Service	–	–	–	–	–	–	–
PFA capital projects	–	–	–	–	–	7,759	7,759
Nonmajor governmental	14,490	–	–	–	–	2,122	16,612
Total Governmental F	14,490	–	–	3,778	3,300	14,549	36,117
Nonmajor enterprise	739	–	–	–	–	–	739
Total Enterprise Fund	739	–	–	–	–	–	739
Total	$ 15,229	$ –	$ –	$ 3,778	$ 3,300	$ 14,549	$ 36,856
Due to other funds							
General	$ –	$ –	$ –	$ 14,490	$ –	$ 739	$ 15,229
Nonmajor governmental	3,778	–	–	–	–	–	3,778
Total Governmental F	3,778	–	–	14,490	–	739	19,007
West Indian Company	3,300	–	–	–	–	–	3,300
Nonmajor enterprise	4,668	–	7,759	2,122	–	–	14,549
Total Enterprise Fund	7,968	–	7,759	2,122	–	–	17,849
Total	$ 11,746	$ –	$ 7,759	$ 16,612	$ –	$ 739	$ 36,856

The due from (to) other funds includes the following amounts due from the general fund: $4.9 million due to the emergency molasses fund (a non-major governmental fund) for unpaid appropriations, $1.3 million due to the elected governor retirement fund, and $3.5 million due to the PFA special revenue fund for unpaid matching funds. The due to the General Fund is mainly composed of $4.4 million due from the Virgin Islands Lottery, consisting primarily of 20% of the net lottery revenue that is required to be transferred to the General Fund, and $2.7 million owed from the bond proceeds fund (a non-major governmental fund) to the general fund.

8. Interfund Transactions (continued)

Due From/To Other Funds (continued)

The due to other governmental funds includes $859 thousand due from the Virgin Islands Lottery to the Pharmaceutical Assistance to the Aged Fund and $943 thousand due from the Virgin Islands Lottery to the VI Educational Initiative Fund consisting primarily of 15% of revenue derived from lottery games under contract between the Virgin Islands Lottery and private contractors be transferred to these funds. Contributions from the Virgin Islands Lottery (a non-major enterprise fund) amounted to $3.4 million, which represented contributions to the VI Educational Initiative Fund (a non-major governmental fund) of $1.7 million and a contribution to the Pharmaceutical Assistance to the Aged Fund (a non-major governmental fund) of $1.7 million.

The due to PFA Capital Projects funds includes $7.4 million due from the Non-Major Business Type Fund viNGN in connection with start-up costs in connection with the broadband project.

9. Restricted Assets

Primary Government

Restricted assets of proprietary funds and business-type activities as of September 30, 2011, include cash and cash equivalents as follows (expressed in thousands):

Restricted Assets – Proprietary Funds and Business-type Activities

Unemployment insurance funds	$	144
WICO debt service funds		1,934
Total restricted assets of proprietary funds and business-type activities	$	2,078

9. Restricted Assets (continued)

Component Units

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

Restricted Assets – Component Units

Cash and cash equivalents:		
Debt service and sinking fund requirements	$	20,237
Endowment funds		18,130
HUD project funds		1,531
Revolving loan funds		18,657
Construction funds		1,959
Renewal and replacement funds		5,856
Other		10,965
Total cash and cash equivalents		77,335
Investments:		
Debt service and sinking fund requirements		25,576
Construction funds		24,605
Endowment funds		25,955
Renewal and replacement funds		2,075
Revolving loan funds		7,068
Total investments		85,279
Other:		
Pledged funds		7,613
Total restricted assets of component units	$	170,227

10. Capital Assets

Primary Government

The capital assets activity for the governmental activities for the year ended September 30, 2011, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 190,022	$ 2,915	$ –	$ –	$ 192,937
Construction in progress	147,773	–	(16,963)	(3,075)	127,735
Total capital assets not being depreciated	337,795	2,915	(16,963)	(3,075)	320,672
Capital assets being depreciated:					
Land improvements	5,305	–	–	–	5,305
Infrastructure	190,105	17,851	15,928	–	223,884
Buildings and improvements	397,335	12,890	727	–	410,952
Machinery and equipment	134,978	5,912	308	–	141,198
Total capital assets being depreciated	727,723	36,653	16,963	–	781,339
Less accumulated depreciation for:					
Land improvements	(3,218)	(196)	–	–	(3,414)
Infrastructure	(57,113)	(10,335)	–	–	(67,448)
Buildings and improvements	(162,818)	(11,268)	–	–	(174,086)
Machinery and equipment	(97,695)	(10,212)	–	–	(107,907)
Total accumulated depreciation	(320,844)	(32,011)	–	–	(352,855)
Total capital assets being depreciated, net	406,879	4,642	16,963	–	428,484
Governmental activities capital assets, net	$ 744,674	$ 7,557	$ –	$ (3,075)	$ 749,156

10. Capital Assets (continued)

Primary Government (continued)

Capital assets activity for the business-type activities for the year ended September 30, 2011, is summarized as follows (expressed in thousands):

	Beginning Balance	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 5,147	$ –	$ –	$ –	$ 5,147
Construction in progress	275	5,648	–	(262)	5,661
Total capital assets not being depreciated	5,422	5,648	–	(262)	10,808
Capital assets being depreciated:					
Land improvements	348	–	–	–	348
Buildings and improvements	66,104	330		–	66,434
Machinery and equipment	9,193	2,158	–	(138)	11,213
Total capital assets being depreciated	75,645	2,488	–	(138)	77,995
Less accumulated depreciation for:					
Land improvements	(340)	(1)	–	–	(341)
Buildings and improvements	(22,227)	(1,554)	–	–	(23,781)
Machinery and equipment	(7,206)	(1,580)	–	111	(8,675)
Total accumulated depreciation	(29,773)	(3,135)	–	111	(32,797)
Total capital assets being depreciated, net	45,872	(647)	–	(27)	45,198
Business-type activities capital assets, net	$ 51,294	$ 5,001	$ –	$ (289)	$ 56,006

10. Capital Assets (continued)

Primary Government (continued)

Depreciation expense was charged to functions/programs of the PG for the year ended September 30, 2011, as follows (expressed in thousands):

Governmental activities:		
General government	$	12,674
Public safety		1,840
Health		1,075
Education		6,280
Public Housing and Welfare		322
Culture and recreation		402
Transportation and communication		9,418
Total depreciation expense – governmental activities	$	32,011
Business-type activities:		
WICO – depreciation	$	1,918
Other enterprise funds – depreciation		1,217
Total depreciation – business-type activities	$	3,135

10. Capital Assets (continued)

Component Units

The capital assets activity for the discretely presented component units for the year ended September 30, 2011, is summarized as follows (expressed in thousands):

	Beginning Balance *(As Restated)*	Additions	Transfers	Disposals	Ending Balance
Capital assets not being depreciated:					
Land	$ 119,918	$ 119	$ –	$ 1,768	$ 118,269
Construction in progress	98,305	83,504	(51,651)	65,352	64,806
Total capital assets not being depreciated	218,223	83,623	(51,651)	67,120	183,075
Capital assets being depreciated:					
Buildings and improvements	1,467,758	68,849	41,255	19,740	1,558,122
Airport and marine terminal facilities	133,474	–	7,219	–	140,693
Personal property and equipment	191,295	13,472	3,177	183	207,761
Intangible assets	2,604	–	–	–	2,604
Total capital assets being depreciated	1,795,131	82,321	51,651	19,923	1,909,180
Less accumulated depreciation:					
Buildings and improvements	855,030	49,958	–	4,734	900,254
Airport and marine terminal facilities	94,924	6,653	–	–	101,577
Personal property and equipment	90,158	10,496	–	108	100,546
Intagible assets	274	174	–	–	448
Total accumulated depreciation	1,040,386	67,281	–	4,842	1,102,825
Total capital assets being depreciated, net	754,745	15,040	51,651	15,081	806,355
Component unit capital assets, net	$ 972,968	$ 98,663	$ –	$ 82,201	$ 989,430

10. Capital Assets (continued)

Component Units (continued)

Depreciation expense charged by each component unit for the year ended September 30, 2011, was as follows (expressed in thousands):

Virgin Islands Housing Authority	$	5,516
Virgin Islands Port Authority		19,822
Virgin Islands Water and Power Authority:		
Electric System		21,588
Water System		4,046
Virgin Islands Government Hospital and Health Facilities Corporation:		
Roy L. Schneider Hospital		4,831
Juan F. Luis Hospital		3,663
University of the Virgin Islands		2,524
Other component units		5,291
Total depreciation expense– component units	$	67,281

11. Long-Term Liabilities

The change in long-term bonds and loans for governmental activities was as follows for the year ended September 30, 2011 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Governmental activities:						
Bonds payable:						
2010 Series A & B Revenue Bonds	$ 399,050	$ -	$ -	$ 399,050	$ –	$ 399,050
2009 Series A Revenue Bonds (Cruzan)	39,190	–	(550)	38,640	565	38,075
2009 Sereis A-1, A-2, B & C Revenue and Refunding Bonds	458,840	–	(8,460)	450,380	29,650	420,730
2009 Series A Revenue Bonds (Diageo)	250,000	–	–	250,000	–	250,000
2006 Series A Revenue Bonds	215,965	–	(1,580)	214,385	2,705	211,680
2006 Series A Tobacco Bonds	7,290	–	–	7,290	–	7,290
2004 Series A Revenue Bonds	78,860	–	(3,625)	75,235	3,805	71,430
2003 Series A Revenue Bonds	252,455	–	(3,495)	248,960	3,635	245,325
2001 Series A Tobacco Bonds	16,845	–	(1,300)	15,545	1,265	14,280
1999 Series A Revenue Bonds	87,695	–	(6,580)	81,115	6,950	74,165
Total bonds payable	1,806,190	–	(25,590)	1,780,600	48,575	1,732,025
Plus (less):						
Deferred costs on refundings	(15,834)	–	854	(14,980)	(854)	(14,126)
Bonds premium	32,788	–	(1,447)	31,341	1,447	29,894
Bonds discount	(6,202)	–	737	(5,465)	(737)	(4,728)
Bonds accretion	2,438	649	–	3,087	3,087	–
Total bonds payable, net	1,819,380	649	(25,446)	1,794,583	51,518	1,743,065
Loans payable:						
Series 2011 A Note	–	32,235	–	32,235	32,235	–
Series 2010 A Working Capital Notes	–	131,400	–	131,400	–	131,400
Series 2009 A Tax Increment Notes	10,031	4,000	–	14,031	–	14,031
Series 2009 B Working Capital Notes	6,400	–	(6,400)	–	–	–
Series 2009 Note	7,292	–	(1,472)	5,820	1,553	4,267
Series 2008 Note	2,449	–	(2,449)	–	–	–
Total loans payable	26,172	135,400	(10,321)	151,251	1,553	149,698
Total governmental bonds and loans	$ 1,845,552	$ 136,049	$ (35,767)	$ 1,945,834	$ 53,071	$ 1,892,763

11. Long-Term Liabilities (continued)

The changes in other long-term liabilities for governmental activities were as follows for the year ended September 30, 2011 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year	Due Thereafter
Other liabilities:						
Accrued compensated absences	$ 60,088	$ –	$ (1,499)	$ 58,589	$ 8,545	$ 50,044
Retroactive union arbitration	231,835	–	(36,549)	195,286	–	195,286
Litigation	20,804	20,995	(14,536)	27,263	15,470	11,793
Landfill closure and postclosure costs	173,311	64,424	(166,105)	71,630	–	71,630
Post employment benefit	145,202	56,221	–	201,423	–	201,423
Total other liabilities	$ 631,240	$ 141,640	$ (218,689)	$ 554,191	$ 24,015	$ 530,176

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

Changes in long-term liabilities for business-type and fiduciary activities were as follows for the year ended September 30, 2011 (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Business-type activities:						
Workers compensation claims	$ 17,900	$ 11,094	$ (8,652)	$ 20,342	$ 4,559	$ 15,783
Capital Lease - WICO	188	–	(188)	–	–	–
Note payable - WICO	22,721	–	(464)	22,257	501	21,756
Total business-type activities	$ 40,809	$ 11,094	$ (9,304)	$ 42,599	$ 5,060	$ 37,539
Fiduciary activities:						
Note payable:						
Pension trust fund	$ 9,963	$ –	$ (9,963)	$ –	$ –	$ –

11. Long-Term Liabilities (continued)

Debt Margin

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

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

11. Long-Term Liabilities (continued)

Bonds Payable

Bonds payable outstanding at September 30, 2011, are comprised of the following (thousands):

Primary Government - Bonds Payable

Bonds Payable	Final Maturity	Interest Rates (%)	Balance
2010 Series A & B Revenue Bonds	2029	4.00 - 5.25	$ 399,050
2009 Series A Revenue Bonds (Cruzan)	2039	3.00 - 6.00	38,640
2009 Series A-1, A-2, B & C Revenue and Refunding Bonds	2040	3.00 - 5.00	450,380
2009 Series A Revenue Bonds (Diageo)	2038	6.00 - 6.75	250,000
2006 Series A Revenue Bonds	2029	3.50 - 5.00	214,385
2006 Series A, B, C & D Tobacco Turbo and Capital Appreciation Bonds	2035	6.25 - 7.625	7,290
2004 Series A Revenue Bonds	2025	4.00 - 5.25	75,235
2003 Series A Revenue Bonds	2033	4.00 - 5.25	248,960
2001 Series A Tobacco Bonds	2031	5.00	15,545
1999 Series A Revenue Bonds	2020	4.20 - 6.50	81,115
Subtotal			1,780,600
Plus (less):			
Deferred costs on refundings			(14,980)
Bonds premium			31,341
Bonds discount			(5,465)
Bonds accretion			3,087
Total			$ 1,794,583

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On July 8, 2010, the Public Finance Authority ("PFA") issued the 2010 Series A and B Revenue Bonds, the proceeds of which amounted to $399.1 million. The Government has pledged matching funds, described below, for the timely payment of the principal and interest on the 2010 Series A and B Revenue Bonds. The 2010 Series A Bonds, amounting to $305.0 million, bear interest at rates ranging from 4.0% to 5.0% mature from 2012 to 2029. The 2010 Series B Bonds, amounting to $94.1 million, bear interest at rates ranging from 4.2% to 5.2% and mature from 2020 to 2029. The bonds were issued to: (i) provide working capital to the PG to finance various operating expenses, (ii) refinance a portion of the outstanding Series 2009 B1 and B2 Notes, (iii) fund the debt service requirements of the bond issuance, and (iv) pay the costs of issuing the bonds.

The 2010 Series A Bonds maturing on October 1, in the years 2012, 2025, and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

The 2010 Series B Bonds maturing on October 1, in the years 2020 and 2029 are subject to mandatory sinking fund redemptions at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption

The matching funds pledged for the payment of the bonds consist of annual advance payments received from the U.S. Department of the Treasury of excise taxes imposed and collected under the Internal Revenue laws of the United States on rum products produced in the U.S. Virgin Islands and exported to the United States from the Virgin Islands.

The amount required to be remitted to the Government by the U.S. Department of the Treasury is an amount no greater than the total amount of local revenue (primarily taxes) collected by the Government in each fiscal year. As a result, the term "matching fund revenue" is used to denote these payments.

Amounts to be received by the Government from federal rum excise tax are deposited directly into trust accounts in accordance with the Indenture of Trust for bond debt service payments. The amounts to be received are subject to adjustment for the amount of local revenue actually collected by the U.S. Department of the Treasury during such year. Prepayments of matching fund revenue are recorded as deferred revenue in the accompanying statement of net assets, and recognized as income in the subsequent fiscal year.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

The rate of federal rum excise tax is determined by Congress. In November 1999, Congress increased the federal rum excise tax rate from $10.50 to $13.25 per proof gallon. Since then, Congress has extended the higher rate six times. Under the 2010 Tax Relief Act, it will be in effect through January 1, 2012.

On December 17, 2009, PFA issued the 2009 Series A Revenue Bonds (the "Cruzan Bonds") amounting to $39.2 million. The Government has pledged matching funds generated from the sale of Cruzan rum products for the timely payment of the principal and interest of the Cruzan Bonds. The Cruzan Bonds bear interest at rates ranging from 3.0% to 6.0% and mature from 2010 to 2039. The proceeds of the Cruzan Bonds were used to: (i) finance the costs of a wastewater treatment facility and renovations at the Cruzan VIRIL, Ltd. ("Cruzan") rum distillery on the island of St. Croix, (ii) fund debt service reserve accounts and (iii) pay the costs of issuing the bonds. The bonds maturing October 1, 2039 are subject to mandatory sinking fund redemptions beginning October 1, 2020, at a redemption price equal to 100% of the principal amount plus interest accrued to the date of redemption.

In association with the issuance of the Cruzan Bonds, the Government entered into an agreement with Cruzan on October 6, 2009, to provide marketing support payments, production incentive payments, continuation of molasses subsidies and other tax incentives to retain Cruzan as part of the rum industry in the U.S. Virgin Islands. Marketing and incentive payments to Cruzan amounted to $54.7 million, $40.2 million and $3.9 million for the years ended September 30, 2011, 2010 and 2009.

On October 1, 2009, PFA issued the 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds, the proceeds of which amounted to $458.8 million. The Government has pledged matching funds for the timely payment of principal and interest on the 2009 Series A-1, A-2, B and C Revenue and Refunding Bonds. The 2009 Series A-1 Bonds amounted to $86.4 million. The 2009 Series A-1 Bonds bear interest at rates ranging from 3.0% to 5.0% and mature from 2010 to 2039. The Series A-1 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds. The 2009 Series A-2 Bonds amounted to $8.7 million. The 2009 Series A-2 Bonds bear an interest rate of 3.00% and mature from 2010 to 2011. The Series A-2 Bonds were issued to: (i) fund certain capital projects, (ii) fund debt service reserve accounts and (iii) pay certain costs of issuing the bonds.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

The 2009 Series B Bonds amounted to $266.3 million, bear an interest rate of 5.0%, and mature from 2010 to 2025. The 2009 Series B Bonds were issued to: (i) current refund the 1998 Series A Bonds, (ii) fund debt service reserve accounts, and (iii) pay certain costs of issuing the bonds.

The 2009 Series C Bonds amounted to $97.4 million, bear an interest rate of 5.0% and mature from 2010 to 2022. The 2009 Series C Bonds were issued to: (i) current refund the 1998 Series E Revenue and Refunding Bonds, (ii) fund debt service reserve accounts and (iii) pay certain costs of issuing the bonds.

The current refunding of the 1998 Series A and 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.

The 2009 Series A-1, B and C Bonds are subject to mandatory sinking fund installment redemptions beginning October 1, 2020 at a redemption price equal to 100% of the principal amount, plus interest accrued, to the date of redemption.

On July 9, 2009, PFA issued the 2009 Series A Bonds (the “Diageo Bonds”) amounting to $250.0 million. The Diageo Bonds mature from 2013 to 2038 at interest rates ranging from 6.0% to 6.75%. The proceeds of the bonds were issued to: (i) provide a grant to Diageo USVI, Inc. (the producer of Captain Morgan rum products) to construct a rum distillery and warehouse on the island of St. Croix, (ii) to redeem the Subordinated Revenue Bond Anticipation Notes Series 2009A issued to finance preliminary costs of the Diageo construction project, (iii) to fund debt service reserve accounts, and (iv) to finance capitalized interest and costs associated with the issuance of the bonds.

The PG has pledged matching funds generated from the sale of Captain Morgan rum products for the timely payment of the principal and interest on the Diageo Bonds. The Diageo Bonds maturing on or after October 1, 2020 are subject to optional redemption on or after October 1, 2019, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date of redemption.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

On September 28, 2006, PFA issued the 2006 Series Gross Receipts Revenue Bonds ("2006 Series Bonds"), the proceeds of which amounted to $219.5 million. The Government has pledged gross receipts tax revenues for the timely payment of the principal and interest on the 2006 Series Bonds. The 2006 Series Bonds bear interest at 3.5% to 5.0% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) advance refund a portion of the Series 1999A Revenue Bonds, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund debt service reserve accounts, (v) pay certain costs of issuing the Series 2006 Bonds, and (vi) fund a net payment reserve account for a new swap agreement in connection with the refunding. The 2006 Series Bonds maturing on or before October 1, 2016 are not subject to optional redemption.

The advance refunding of the 2020 through 2029 maturities of the 1999 Series A Bonds was made in order to obtain lower interest rates. The economic gain obtained by this advance refunding is the difference between the present value of old debt service requirements and the new debt service. This refunding resulted in a debt service saving of approximately $40.8 million and an economic gain of approximately $25.6 million.

The proceeds of the 2006 Series Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the 1999 Series A Bonds. Approximately $180 million in funds were deposited into the Escrow Fund accounts. At September 30, 2011, $162.9 million of defeased 1999 Bonds remained outstanding.

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

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

Interest on the Series 2006 Tobacco Settlement Asset-Backed Bonds is not paid currently, but accretes from the date of delivery, compounded every May 15 and November 15, commencing May 15, 2006 through the final maturity date of May 15, 2035. Interest yields on the Bonds range from 6.25% to 7.625%. The series are subject to early redemption at accreted value beginning May 15, 2023, provided that the 2001 Tobacco Settlement Asset-Backed Series A Bonds have been paid in full.

On December 1, 2004, PFA issued the 2004 Series A Bonds, the proceeds of which amounted to $94.0 million. The Government has pledged the Matching Fund Revenues to the timely payment of principal and interest on the 2004 Series A Bonds. The bonds bear interest at 4.0% to 5.25% and mature from 2005 to 2025. The proceeds of the bonds were issued to: (i) finance the planning, development, constructing, renovating, and equipping of wastewater treatment facilities and collection systems on St. Thomas and St. Croix, (ii) finance the repairs, renovations, and construction of solid waste facilities in the Territory, (iii) finance the repair and construction of public roads in the Territory, (iv) provide start-up capital for the Virgin Islands Waste Management Authority, (v) fund the Series 2004A Senior Lien Debt Service Reserve Subaccount, and (vi) pay certain costs of issuing the Series 2004A Bonds. The Series 2004A Bonds are not subject to optional redemption prior to October 1, 2014.

On December 17, 2003, PFA issued the Series 2003A Revenue Bonds, the proceeds of which amounted to approximately $268.0 million. The bonds were issued to: (i) repay the Government outstanding Revenue Bond Anticipation Notes, Series 2003, (ii) fund certain necessary public safety and other public sector capital development projects, (iii) fund debt service accounts for the bond issuance, and (iv) to pay certain costs of issuing the bonds. The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the Series 2003A Revenue Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. The Series 2003A Revenue Bonds are not subject to optional redemption prior to October 1, 2014.

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

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

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

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

2001 Series A Tobacco Bonds payable at September 30, 2011 amounted to $15.5 million. Under early redemption provisions, any MSA payments exceeding annual debt service requirements of the 2001 Series A Tobacco Bonds must be applied to early redemption of principal. MSA payments and interest earnings on the trust funds during the year ended September 30, 2011, resulted in early redemption of $135 thousand during fiscal year 2011.

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

On September 28, 2006, PFA advance refunded a portion of the 1999 Bonds with maturity dates of October 1, 2020 to October 1, 2029 totaling $162.9 million. The proceeds of the refunding were placed in a trust account to provide for all future debt service payments on the 2020 through 2029 maturities of the bonds. Approximately $180.0 million was deposited with the refunding bond escrow agent to fund the Escrow Fund accounts. At September 30, 2011, $81.1 million of the defeased 1999 Series A Revenue Bonds remain outstanding.

The Government has pledged gross receipts taxes for the timely payment of the principal and interest on the 1999 Series A Bonds. Interest is payable semiannually on April 1 and October 1, and principal is payable annually on October 1. Gross receipts revenue amounted to $147.9 million for the year ended September 30, 2011.

11. Long-Term Liabilities (continued)

Bonds Payable (continued)

Governmental Activities – Bonds

	Revenue Bonds Series 1999 A		Tobacco Bonds Series 2001 A		Revenue Bonds Series 2003 A		Revenue Bonds Series 2004 A		Revenue Bonds Series 2006	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2012	$ 6,950	$ 4,948	$ 1,265	$ 771	$ 3,635	$ 12,448	$ 3,805	$ 3,814	$ 2,705	$ 10,330
2013	7,395	4,485	1,335	711	3,815	12,262	3,995	3,619	2,805	10,192
2014	7,865	4,057	1,405	647	4,010	12,066	4,195	3,414	2,905	10,049
2015	8,365	3,546	–	577	4,210	11,860	4,405	3,199	3,015	9,901
2016	8,900	2,885	–	577	4,420	11,639	4,625	2,967	3,125	9,748
2017 – 2021	41,640	5,460	3,495	2,885	25,840	54,363	27,020	10,829	29,565	46,007
2022 – 2026	–	–	–	2,011	33,270	46,769	27,190	2,946	87,710	31,104
2027 - 2031	–	–	8,045	2,011	64,830	36,779	–	–	82,555	7,871
2032 - 2036	–	–	–	–	104,930	8,040	–	–	–	–
Total	$ 81,115	$ 25,381	$ 15,545	$ 10,190	$ 248,960	$ 206,226	$ 75,235	$ 30,788	$ 214,385	$ 135,202

	Tobacco Bonds Series 2006		Revenue Bonds Series 2009 A (Diageo)		Revenue Bonds Series 2009 A-1		Revenue Bonds Series 2009 A-2		Revenue Bonds Series 2009 B	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2012	$ –	$ –	$ –	$ 16,703	$ 1,505	$ 3,974	$ 6,650	$ 100	$ 15,145	$ 12,763
2013	–	–	–	16,703	1,550	3,928	–	–	15,920	11,986
2014	–	–	4,040	16,581	1,600	3,881	–	–	16,740	11,170
2015	–	–	4,290	16,331	1,650	3,830	–	–	17,600	10,311
2016	–	–	4,575	16,048	1,705	3,773	–	–	18,505	9,409
2017 – 2021	–	–	28,120	74,985	9,615	17,782	–	–	107,760	31,798
2022 – 2026	–	–	39,245	63,863	12,090	15,309	–	–	71,160	8,103
2027 – 2031	–	–	54,665	48,439	15,460	11,938	–	–	–	–
2032 – 2036	48,145	–	76,475	26,624	19,850	7,546	–	–	–	–
2037 – 2041	–	–	38,590	2,649	19,865	2,049	–	–	–	–
Less unamortized discount	(40,855)	–	–	–	–	–	–	–	–	–
Total	$ 7,290	$ –	$ 250,000	$ 298,926	$ 84,890	$ 74,010	$ 6,650	$ 100	$ 262,830	$ 95,540

	Revenue Bonds Series 2009 C		Revenue Bonds Series 2009 A (Cruzan)		Revenue Bonds Series 2010 A		Revenue Bonds Series 2010 B		Total Government Activities	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Maturity Year:										
2012	$ 6,350	$ 4,642	$ 565	$ 2,227	$ –	$ 15,188	$ –	$ 4,833	$ 48,575	$ 92,741
2013	6,675	4,316	585	2,210	1,990	15,148	–	4,833	46,065	90,393
2014	7,015	3,974	605	2,186	2,065	15,067	–	4,834	52,445	87,926
2015	7,210	3,618	640	2,154	2,155	14,983	–	4,834	53,540	85,144
2016	7,745	3,244	670	2,122	2,270	14,883	–	4,834	56,540	82,129
2017 – 2021	42,900	9,964	3,910	10,051	13,330	72,534	1,050	24,145	334,245	360,803
2022 – 2026	18,115	841	5,205	8,756	92,260	61,609	37,460	20,922	423,705	262,233
2027 – 2031	–	–	7,035	6,933	190,930	19,689	55,540	6,023	479,060	139,683
2032 – 2036	–	–	9,490	4,472	–	–	–	–	258,890	46,682
2037 – 2041	–	–	9,935	1,237	–	–	–	–	68,390	5,935
Less unamortized discount	–	–	–	–	–	–	–	–	(40,855)	–
	$ 96,010	$ 30,599	$ 38,640	$ 42,348	$ 305,000	$ 229,101	$ 94,050	$ 75,258	$ 1,780,600	$ 1,253,669

11. Long-Term Liabilities (continued)

Conduit Debt

In March 2007, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2007 Tax-Exempt Bonds", amounting to $104.1 million, to finance modifications to diesel and gasoline desulfurization units for a refinery on the island of St. Croix. The bonds have an interest rate of 4.7% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. The amount outstanding at September 30, 2011 of $104.1 million was subsequently defeased by HOVENSA under a buy-back option offered to bondholders in January 2012.

In April 2004, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2004 Tax-Exempt Bonds", amounting to $50.6 million, to finance construction of a delayed coking unit for a refinery on the island of St. Croix. The bonds have an interest rate of 5.9% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. The amount outstanding at September 30, 2011 of $50.6 million was subsequently defeased by HOVENSA under a buy-back option offered to bondholders in January 2012.

In December 2003, the PFA issued private activity bonds, the Refinery Facilities Senior Secured Tax-Exempt Revenue Bonds (HOVENSA Refinery), the "Series 2003 Tax-Exempt Bonds", amounting to $74.2 million, to finance the costs of a Clean Fuels Program for a refinery on the island of St. Croix. The Clean Fuels Program consists of three major projects to comply with regulatory standards for low sulfur gasoline. The Clean Fuels Program is a federally mandated program effective January 2004. The bonds have an interest rate of 6.1% and are limited obligations of PFA, payable solely from, and secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not

11. Long-Term Liabilities (continued)

Conduit Debt (continued)

obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. The amount outstanding at September 30, 2011 of $74.2 million was subsequently defeased by HOVENSA under a buy-back option offered to bondholders in January 2012.

In November 2002, the PFA and the PG issued private activity bonds, the Refinery Facilities Revenue Bonds (HOVENSA Coker Project), the "Series 2002 Tax-Exempt Bonds", amounting to $63.8 million and $63.0 million respectively ($126.8 million in total) to finance costs of construction of a coker plant for a refinery on the island of St. Croix. The bonds have an interest rate of 6.50% and are limited obligations of PFA and the PG, payable solely from and are secured by, a pledge and assignment of the amounts payable under a loan agreement between PFA, PG and the refinery. The refinery is responsible for all debt service payments of the private activity bonds. The Government is not obligated for the repayment of the bonds. The bonds are not reported as liabilities in the Government's basic financial statements. The amount outstanding at September 30, 2010 of $126.8 million was subsequently defeased by HOVENSA under a buy-back option offered to bondholders in January 2012.

Notes Payable

On April 29, 2011, PFA entered into the Subordinate Lien Revenue Bond Anticipation Notes (the "Series 2011A Notes"), in the amount of $32.2 million, for the purpose of upgrading the broadband infrastructure, equipment and technology in the U.S. Virgin Islands. The Series 2011 A Notes are a general obligation of the PG, secured by gross receipts taxes. Interest accrues quarterly at the rate of 4.75% and the Notes reach maturity on April 29, 2012, at which time principal and accrued interest are due.

Proceeds of the Series 2012A and 2012B were used in part to refinance broadband project obligations, Series 2011A Notes.

Debt service requirements for the Series 2011A Notes at September 30, 2011, are as follows (expressed in thousands):

Year	Principal	Interest
2012	$ 32,235	$ 1,140
	$ 32,235	$ 1,140

11. Long-Term Liabilities (continued)

Notes Payable (continued)

On November 4, 2010, PFA entered into the Subordinated Lien Revenue Bond Anticipation Notes (the "Series 2010A Notes"), which modified and amended the Series 2009B Notes, extending the maturity date to October 1, 2013, with a maximum amount of $78.8 million from the Agent Lender and $52.5 million from the Syndicate Lender. The Series 2010A Notes are a general obligation of the PG, secured by gross receipts taxes and, commencing October 1, 2012, a set-aside amount equal to four percent (4%) of matching fund revenues. The Series 2010A Notes accrue interest at a rate of 400 points above the 90-day LIBOR rate, not to exceed a maximum rate of 5.50%, with interest payments due on the first business day of the month.

Debt service requirements for the Series 2010A Notes at September 30, 2011, are as follows (expressed in thousands):

Year	Principal
2012	$ –
2013	131,400
	$ 131,400

On September 25, 2009, PFA entered into the Tax Increment Revenue Bond Anticipation Note Purchase Agreement (the "Agreement") with a local bank. Under the terms of the Agreement, the bank will purchase up to $15.7 million in federally taxable Bond Anticipation Notes (the "Series 2009A Notes"). The purpose of the Series 2009A Notes is to provide a loan to the PG (the "Series 2009A Tax Increment Revenue Loan Note") to finance the developmental costs of a shopping complex on the island of St. Croix. The Series 2009A Notes have a term of three years, maturing on October 1, 2012, with interest of 300 points above the J.P. Morgan Chase Prime Rate or 6.25%, whichever is higher. On October 1, 2012, the Series 2009A Notes will convert to a term loan with payments in eleven quarterly payments, based on a twenty-five (25) year amortization schedule, with a final payment on October 1, 2015. Under the terms of the Agreement, PFA may issue Tax Increment Revenue Bonds to defease the debt prior to that date. As of September 30, 2011, PFA had sold $14 million in Series 2009A Notes.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

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

Debt service requirements for the Series 2009A Notes at September 30, 2011, were as follows (expressed in thousands):

Year	Principal
2012	$ –
2013	180
2014	253
2015	269
2016	13,329
	$ 14,031

On September 18, 2009, PFA issued the Subordinated Lien Revenue Bond Anticipation Notes (Series 2009B Notes) in two series: the Series 2009 B-1 Notes in the aggregate amount of $150 million with the agent lender First Bank of Puerto Rico and the Series B-2 Notes in the aggregate amount of $100 million with the syndicate lender Banco Popular de Puerto Rico. The purpose of the Notes was to provide working capital to the PG for operating expenses and to pay the costs of the issuances. As of September 30, 2010, $6.4 million of the credit facility remained outstanding. On November 4, 2010, this amount was defeased with the issuance of the Series 2010A Notes.

11. Long-Term Liabilities (continued)

Notes Payable (continued)

In August 2009, the current unemployment insurance taxes and reserve balances of the Unemployment Trust Fund (UTF) held by the U.S. Treasury became inadequate to cover territory expenditures for unemployment compensation (UC) benefits. UC benefits are an entitlement program and the PG is legally liable to pay benefits even if the UTF becomes insolvent. As of September 30, 2011, the PG had borrowed $26.6 million from the U.S. Treasury Federal Unemployment Account (FUA) to meet U.C. obligations. The American Recovery and Reinvestment Act of 2009 (P.L. 111-5 Section 2004) temporarily waives interest payments and the accrual of interest on FUA loans.

On February 12, 2009, PFA issued the Subordinate Lien Revenue Bond Anticipation Notes ("Series 2009 Notes"), in the amount of $8.0 million. The Government has pledged gross receipts taxes for the timely payment of the Series 2009 Notes. The Series 2009 Notes initially had an interest rate of 4.8% and a due date of February 1, 2010. PFA elected a conversion of the Series 2009 Notes to term notes with principal and interest payable semi-annually on February 1 and August 1, at an interest rate of 5.4% and a maturity date of August 1, 2015. The proceeds of the Series 2009 Notes were issued: (i) to finance the purchase and installation of 911 emergency communication equipment for the Virgin Islands Police Department and (ii) to pay certain costs of issuing the Series 2009 Notes.

Debt service requirements for the Series 2009 Notes at September 30, 2011, were as follows (expressed in thousands):

Year	Principal	Interest
2012	$ 1,553	$ 294
2013	1,639	208
2014	1,728	119
2015	900	24
Total	$ 5,820	$ 645

11. Long-Term Liabilities (continued)

Notes Payable (continued)

On August 12, 2008, PFA issued the Subordinate Lien Revenue Notes, Series 2008 (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $7.7 million (the "Series 2008 Notes"). The Series 2008 Notes accrued interest monthly at a rate of 4.8% for 36 months. The proceeds of the Series 2008 Notes were loaned to the PG under the same terms, for the purposes of (i) financing the acquisition of a fleet of vehicles for the Virgin Islands Police Department and (ii) paying certain costs of issuing the Series 2008 Notes. The PG pledged gross receipts taxes for the payment of the Series 2008 Notes, which were defeased in August 2011.

On June 1, 2008, WICO refinanced its outstanding notes payable and obtained an additional $2.3 million in financing for infrastructure improvements. The consolidated notes amounted to $23.6 million, to be repaid in 120 consecutive monthly installments of $154.9 thousands at a fixed interest rate of 6.2%, plus a final payment of the balance of principal, plus any unpaid interest, in 2018. The notes may be prepaid, in whole, or in part, at any time without penalty.

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

As of September 30, 2011, WICO was not in compliance with note covenants requiring 1) minimum operating revenue thresholds and 2) the maintenance of a restricted debt service reserve account equal to debt service requirements for the following year. On May 13, 2011, WICO obtained a waiver from the lender for its failure to comply with these covenants.

Debt service requirements for the WICO loan at September 30, 2011, were as follows (expressed in thousands):

Year:	Principal
2012	$ 501
2013	533
2014	567
2015	603
2016	641
2017 - 2018	19,412
Total	$ 22,257

11. Long-Term Liabilities (continued)

Fiduciary Funds – Notes Payable

On October 2, 2006, GERS entered into a loan agreement with Banco Popular de Puerto Rico to provide working capital and to pay issuance and closing costs associated with the agreement. The line of credit is a revolving credit facility with a maximum principal amount of $25.0 million, which accrues interest at a fixed interest rate of 6.3% calculated on a 360-day basis and is due and payable quarterly, commencing on the first day of the fourth calendar month following the closing of the loan. The line of credit facility is available to GERS for a period up to three years, subject to annual renewals. At any time that an event of default occurs, the loan will bear interest at a rate equal to 3.0% above a variable interest rate based on the bank's transfer rate. The bank retains a certificate of deposit in the amount of $20.0 million as security on the loan agreement. As of September 30, 2011, there was no outstanding balance under the line-of-credit agreement.

Standby Credit Facility

On October 9, 2010, PFA entered into a standby credit facility ("credit facility") with Banco Popular de Puerto Rico in an aggregate principal amount of up to $45.0 million. The purpose of the credit facility is to provide financial liquidity for payments required under Chapter 10 of Title 22 of the VIC upon the failure of a Virgin Islands insurance carrier. Under that legislation, the Virgin Islands Insurance Guaranty Fund is to maintain a minimum balance of $50.0 million for claimant payments. The credit facility is secured and payable from gross receipts taxes. The credit facility will terminate once the Virgin Islands Insurance Guaranty Fund has been restored to an amount of $50.0 million. The initial term of the credit facility is three (3) years at an interest rate on drawn funds equal to the 90-Day LIBOR plus 400 basis points with a minimum rate of 5.5%, payable quarterly in advance, with an option to extend the credit facility for an additional three (3) year term. The credit facility is subject to: (i) an issuance fee of one-hundred seventy-five (175) basis points annually, payable quarterly in advance, on the outstanding amount of the credit facility for the principal not drawn upon, (ii) a fee upon each draw of twenty-five (25) basis points, and (iii) extension fees to be negotiated with Banco Popular de Puerto Rico, should the credit facility be extended. As of September 30, 2011, no draws have been made on the credit facility, and the amount in the Virgin Islands Insurance Guaranty fund was $18.9 million.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable

Bonds payable of discretely presented component units are those liabilities that are paid out of resources pledged by such entities. Bonds payable, outstanding at September 30, 2011, are as follows (expressed in thousands):

Bonds Payable	Maturity	Interest Rates (%)	Balance
Virgin Islands Water and Power Authority (Electric System)			
Revenue bonds of 2010	2033	5.0	$ 85,335
Revenue bonds of 2007	2031	5.0	57,585
Revenue bonds of 2003	2023	4.00 – 5.00	60,385
Revenue bonds of 1998	2021	4.25 – 5.30	16,965
Virgin Islands Water and Power Authority (Water System)			
Revenue bonds of 1998	2017	4.90 – 5.50	22,005
Virgin Islands Port Authority			
Series A Revenue bonds of 2003	2023	5.00 – 5.25	18,005
Series B Revenue bonds of 2003	2015	3.73 – 5.43	6,555
Series C Revenue bonds of 2003	2023	4.40	8,171
Virgin Islands Housing Finance Authority:			
Revenue bonds of 1998	2028	4.10 – 5.25	1,420
Revenue bonds of 1995	2025	5.50 – 6.50	990
Subtotal			$ 277,416
Plus unamortized premium			6,029
Less unamortized discount			(131)
Less deferred costs on debt refunding			(375)
Bonds payable, net			$ 282,939
Less amount due within one year			(11,588)
Bonds payable, due in more than one year			$ 271,351

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

Following is a schedule of changes in bonds payable, loans payable and other long-term liabilities for discretely presented component units for fiscal year ended September 30, 2011, (expressed in thousands):

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year	Amounts Due Thereafter
Bonds payable:						
University of the Virgin Islands	$ 40,746	$ –	$ (40,746)	$ –	$ –	$ –
Virgin Islands Water and Power Authority:						
Electric System	233,901	–	(7,800)	226,101	6,635	219,466
Water System	23,828	–	(2,236)	21,592	2,670	18,922
Virgin Islands Port Authority	34,782	–	(1,946)	32,836	2,023	30,813
Virgin Islands Housing Finance Authority	2,810	–	(400)	2,410	260	2,150
Total bonds payable, net	336,067	–	(53,128)	282,939	11,588	271,351
Notes payable:						
Virgin Islands Economic Development Authority	544	–	(70)	474	55	419
Virgin Islands Water and Power Authority:						
Electric System	28,461	15,200	(7,141)	36,520	7,342	29,178
Virgin Islands Port Authority	1,301	3,173	(2,959)	1,515	1,515	–
Virgin Islands Housing Finance Authority	1,816	–	(290)	1,526	112	1,414
University of the Virgin Islands	1,733	37,445	(116)	39,062	1,503	37,559
Total loans payable	33,855	55,818	(10,576)	79,097	10,527	68,570
Line of credit payable:						
Virgin Islands Water and Power Authority:						
Electric System	26,000	–	(3,000)	23,000	–	23,000
Water System	–	2,500	–	2,500	–	2,500
Total line of credit payable	$ 26,000	$ 2,500	$ (3,000)	$ 25,500	$ –	$ 25,500
Other long-term liabilities:						
University of the Virgin Islands	115	5,183	–	5,298	–	5,298
Virgin Islands Housing Authority	6,514	1,351	(489)	7,376	511	6,865
Virgin Islands Water and Power Authority:						
Electric System	16,809	6,761	–	23,570	–	23,570
Water System	3,943	1,428	–	5,371	–	5,371
Economic Development Authority	–	234	–	234	–	234
Juan F. Luis Hospital	477	–	(240)	237	186	51
Waste Management Authority	2,725	383	–	3,108	–	3,108
Virgin Islands Housing Finance Authority	20,309	–	(12,161)	8,148	–	8,148
Total other long-term liabilities	$ 50,892	$ 15,340	$ (12,890)	$ 53,342	$ 697	$ 52,645

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

In June 2011, the University of the Virgin Islands entered into two capital project loan agreements (loan agreements) in the amounts of $44.0 million and $16.0 million, with Rice Capital Access Program, LLC. The purpose of the capital project loans was to: (i) advance refund the University's 1999 Series A Bonds and 2004 Series A Bonds, and (ii) to pay for construction costs of a 100 bed student residence facility and other construction improvement costs of facilities on the St. Thomas and St. Croix campuses. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old outstanding bonds of approximately $4.5 million and an economic gain of $6.8 million.

On March 30, 2010, the Electric System of WAPA issued the $39.1 million 2010A Electric System Revenue Refunding Bonds; the $8.9 million 2010B Electric System Revenue Bonds; and the $37.3 million 2010C Electric System Revenue Refunding Bonds. The proceeds of the Series 2010A Bonds were used to: i) refund a portion of the Electric System Revenue Refunding Bonds, Series 1998, and ii) pay certain costs of issuance of the Series 2010A Bonds. The proceeds of the Series 2010B and 2010C Bonds were used to: i) finance certain capital expenditures temporarily funded through draws on a line of credit ($9.0 million) and, ii) to make certain deposits into the Debt Service Revenue Fund sufficient to satisfy the Debt Service Reserve Fund requirement. The proceeds of the three series were also used to pay certain costs of issuance of the 2010A, 2010B, and 2010C Revenue and Refunding Bonds.

On June 28, 2007, the Electric System of WAPA issued the $57.6 million 2007A Electric System Subordinated Revenue Bonds, to pay certain costs of issuance of the bonds, to finance the costs of certain capital improvements, refinance capital improvements funded through draws on a Line of Credit and to reinstall a $10.0 million Line of Credit.

On June 15, 2003, the Electric System issued the Electric System Revenue Bonds, Series 2003, amounting to $69.9 million. The proceeds from the bonds were used to finance capital improvements, repay $18.0 million of then outstanding lines-of-credit, cover underwriters' costs, and establish a debt service fund.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

On June 1, 1998, the Electric System of WAPA issued $110.9 million of 1998 Series A Electric System Revenue and Refunding Bonds. The proceeds from the bonds, and approximately $14.0 million in funds from the existing debt service and debt service funds, were used to repay outstanding line-of-credit balances, to provide for approximately $30.0 million in funds for the construction of certain capital projects, and to pay underwriters discount and issuance costs of approximately $1.7 million. The remaining proceeds were used to purchase direct obligations of the U.S. government which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining $69.0 million principal amount of the 1991 Series A Electric System Revenue Bonds.

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

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

For the year ended June 30, 2011, the Authority's debt coverage ratio was .91. Section 606(2) of the Subordinated Bond Resolutions provides that if the Authority fails to achieve the required coverage ratios, then the Authority must "take whatever steps it can to produce the amount of net electric revenues required in the following year". Section 701(3) of the Subordinated Bond Resolutions further provides that if the covenant default continues for 60 days after notice of default without the Authority proceeding with diligence to cure the default. The Authority believes it is taking such steps currently to ensure future compliance with required debt coverage ratios.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

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

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

On June 1, 1998, the Water System of WAPA issued the 1998 Water System Revenue and Refunding Bonds amounting to $44.1 million. The proceeds from the bonds were used to repay the 1990 Series A Water System Revenue Bonds at a redemption price of 100% and to refund the 1992 Series B Water System Revenue Bonds, repay outstanding lines of credit balances, pay underwriters' costs, provide funding for a Renewal and Replacement Reserve Fund, and to purchase obligations of the United States Government, which were placed in an irrevocable trust with an escrow agent to provide all future debt service on the remaining principal amount of the 1992 Series B Bonds.

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

The Bond Resolution contains certain restrictions and commitments, including the Water System's covenant to establish and maintain reasonable rates, fees, rentals, and other charges to produce net water revenue, as defined, that will be at least 125% of aggregate annual principal and interest payments. The Water System's net water revenue for the fiscal year ended June 30, 2010 was 109% of the aggregate debt service as defined in the Bond Resolution.

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

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

On January 16, 2003, VIPA issued the Marine Revenue Bonds Series 2003A (AMT) and 2003B (federally taxable) with principal amounts of approximately $18.0 million and $17.4 million, respectively. VIPA is using the proceeds of the bonds to finance the dredging, rehabilitation, and construction of berthing piers for cruise and seagoing vessels at Crown Bay in St. Thomas, and the construction of a mixed used commercial facility.

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

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

The bonds' indentures also specify certain debt service coverage requirements determined from net available revenue (as defined) of the Authority's Marine Division. The provisions of each of the bonds' indentures require that rates and fees charged for the use of each facility should be sufficient to generate enough revenue to pay all operation and maintenance expenses, exclusive of depreciation and certain noncash charges, of the respective facilities, plus: (i) at least 125% of the principal and interest and redemption account sinking fund deposit requirement of each of the bonds becoming due during such year; (ii) the amount of the debt service reserve fund deposit requirement for such period; (iii) the deposit required to the Renewal and Replacement Fund; and (iv) the amount of the capital improvements appropriations for such period. VIPA did not

11. Long-Term Liabilities (continued)

Component Units – Bonds Payable (continued)

comply with the requirement to issue the audited financial statements within 150 days after year-end. However, as per the Authority's bond indenture, this noncompliance event does not constitute an event of default until the Trustee sends a notification of failure and such failure continues for 90 days. As of February 24, 2012, the Authority has not received a notification of failure from the Trustee.

On August 1, 1998, VIHFA issued the 1998 Revenue Bonds Series A in the amount of $3.0 million, and on March 1, 1995, VIHFA issued the 1995 Revenue Bonds Series A in the amount of $6.2 million, for the purpose of building single-family housing. The indenture agreements for the bonds require the VIHFA to deposit with the trustee the full amount of the bond proceeds, to purchase Government National Mortgage Association (GNMA) certificates. The servicer is obligated to pay the principal and interest due on the GNMA certificates to the trustee in an amount equal to the scheduled principal and interest payments of the underlying mortgages. All mortgage loans issued by the VIHFA must be originated by the participants and secured by a first priority mortgage lien on the applicable single-family residences.

Fixed maturities required to pay principal and interest on discretely presented component units' bonds payable with fixed maturities at September 30, 2011, are as follows (expressed in thousands):

Year	Principal	Interest	Total
2012	$ 11,588	$ 13,185	$ 24,773
2013	12,105	12,656	24,761
2014	12,388	12,125	24,513
2015	12,962	11,558	24,520
2016	13,577	10,940	24,517
2017 – 2021	74,087	45,204	119,291
2022 – 2026	55,134	31,862	86,996
2027 – 2031	57,705	18,267	75,972
2032 – 2036	27,870	4,239	32,109
Total	277,416	$ 160,036	$ 437,452
Plus unamortized premium	6,029		
Less unamortized discount	(131)		
Less deferred costs on debt refunding and reacquisition	(375)		
Bonds payable, net	$ 282,939		

12. General Tax Revenue

For the year ended September 30, 2011, general tax revenue of the PG consisted of the following (expressed in thousands):

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Income taxes	$ 291,755	$ –	$ –	$ –	$ 291,755
Real property taxes	79,648	–	–	6,783	86,431
Gross receipts taxes	3,486	140,121	4,509	250	148,366
Excise taxes rum products	95,915	55,430		4,027	155,372
Other taxes	48,007	–	–	1,300	49,307
Tax revenue	$ 518,811	$ 195,551	$ 4,509	$ 12,360	731,231
Tax revenue not recognized on the modified accrual basis					(47,032)
Total tax revenue - government-wide					$ 684,199

13. Governmental Fund Balances

For the year ended September 30, 2011, the PG implemented Statement No. 54 of the Governmental Accounting Standards Board, *"Fund Balance Reporting and Governmental Fund Type Definitions."* This Statement establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The classifications reported by the PG include: nonspendable fund balance, restricted fund balance, committed fund balance, assigned fund balance, and unassigned fund balance.

The PG utilizes the classification of nonspendable fund balance to report prepaid expenses, restricted fund balance to report debt service accounts, committed fund balance to report those fund balances restricted by grantors, external parties, regulations and litigation, assigned fund balances to report those funds assigned by the legislature, boards and authorities of the PG, and unassigned fund balances of the General Fund.

The PG's policy is to expend unassigned fund balances before assigned, committed or restricted balances.

13. Governmental Fund Balances (continued)

Following is a detail of the aggregated fund balances presented in the Balance Sheet – Governmental Funds as of September 30, 2011:

	General	PFA Debt Service	PFA Capital Projects	Other Governmental	Total
Fund balances:					
Restricted for:					
Debt Service	$ –	$ 214,743	$ –	$ –	$ 214,743
Capital Projects	–	–	127,509	–	127,509
General Government	–	–	–	29,597	29,597
Health	–	–	–	7,025	7,025
Public Housing & Welfare	–	–	–	10,318	10,318
Education	–	–	–	30,875	30,875
Transp. & Communication	–	–	–	13,953	13,953
Culture & Recreation	–	–	–	8	8
Total Restricted:	–	214,743	127,509	91,776	434,028
Committed to:					
General Government	29,090	–	–	25,663	54,753
Public Housing & Welfare	–	–	–	361	361
Transp. & Communication	–	–	–	7,509	7,509
Culture & Recreation	481	–	–	473	954
Total Committed:	29,571	–	–	34,006	63,577
Unassigned:	(103,408)	–	–	(49,385)	(152,793)
Total Fund Balances	$ (73,837)	$ 214,743	$ 127,509	$ 76,397	$ 344,812

The assigned fund balance includes approximately $48.8 million in unexpended encumbrances. Encumbrances are utilized to determine commitments related to unperformed (executor) contracts for goods and services, and to prevent the over-spending of an appropriation.

14. Commitments and Contingencies

Primary Government

Collective Bargaining Agreements

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

As of September 30, 2011, the Government has contractual liabilities for retroactive union arbitration salary increases estimated at $195.3 million accruing from fiscal years 1993 through 2011, as established by the Virgin Islands Retroactive Wage Commission.

Under Title 24, Section 374(h) of the Virgin Islands Code, the PG may not make any payments of retroactive salaries until there is an appropriation of funds by the Legislature.

Federal Assistance Programs

The Government receives financial assistance from the federal government in the form of loans, grants, and entitlements. Loans received are described in Note 11. Monetary and nonmonetary federal financial assistance to governmental funds amounted to approximately $339.2 million and $47.9 million, respectively, for the year ended September 30, 2011.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Federal Assistance Programs (continued)

In February 2009, the federal government passed the American Recovery and Reinvestment Act ("ARRA") to create jobs and stimulate the economy. Under Title I, Section 1001(b) of ARRA, the federal government acknowledged that certain refundable tax credits authorized by the Act imposed an economic hardship on United States territories that operate under "mirror" income tax systems. To alleviate this economic hardship, Congress provided for federal loss reimbursements to the mirrored system territories. During fiscal years 2009, 2010 and 2011, the PG received $23.4 million, $21.1 million and $7.7 million in loss reimbursements for the Making Work Pay refundable tax credit. During fiscal year 2011, the PG received $18.6 million in loss reimbursements of the Additional Child Tax refundable tax credit.

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

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

Compliance Agreement U.S. Department of Education

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

14. Commitments and Contingencies (continued)

Primary Government (continued)

Compliance Agreement U.S. Department of Education (continued)

On August 22, 2006, the PG entered into a contract with a third-party fiduciary to administer U.S. Department of Education grants, effective October 1, 2006. The terms and conditions of the original compliance agreement have been extended until the Government is in full compliance with the agreement.

Legal Proceedings and Litigation Claims

The Government is a defendant in numerous legal proceedings pertaining to matters incidental to the performance of routine governmental operations. Under Title 33, Section 3411(c) of the V.I. Code, no judgment shall be awarded against the Government in excess of $25,000 for tort claims filed under Government statutes. In cases involving several survivors, each award must be construed separately for purposes of applying the limitation upon recovery imposed by the Tort Claims Act. Under Title 27, Section 166(e) of the V.I. Code, the Government's waiver of immunity is expanded to $250,000 for medical malpractice actions, including actions for wrongful death based on malpractice. Under certain circumstances, as provided in Title 33, Section 3414 of the V.I. Code, the Government may assume the payment of a judgment entered against an officer or employee who acted reasonably and within the scope of his employment. The Government may pay up to a maximum amount of $100,000 of the settlement. With respect to pending and threatened litigation, the Government has accrued a provision for legal claims and judgments of approximately $27.2 million for awarded and anticipated unfavorable judgments as of September 30, 2011. Management believes that any liability in excess of amounts recorded will not have a material effect on the basic financial statements.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Legal Proceedings and Litigation Claims (continued)

Changes in the reported provision for legal claims since October 1, 2009, resulted from the following activity (expressed in thousands):

	Beginning Balance at October 1, 2009	New Claims	Claim Payments and Changes in Estimates	Ending Balance at September 30, 2010
Provision for legal claims	$ 16,639	$ 6,449	$ (2,284)	$ 20,804

	Beginning Balance at October 1, 2010	New Claims	Claim Payments and Changes in Estimates	Ending Balance at September 30, 2011
Provision for legal claims	$ 20,804	$ 20,995	$ (14,536)	$ 27,263

The breakdown of the provision for legal claims at September 30, 2011 is as follows (expressed in thousands):

Governmental activities	
Current portion of provision for legal claims	$ 15,470
Long-term portion of provision for legal claims	11,793
	$ 27,263

14. Commitments and Contingencies (continued)

Primary Government (continued)

Property Tax Assessments

As of September 2002, the Government was a defendant in a lawsuit regarding the assessment of property taxes. Under the lawsuit, taxpayers asserted that properties should be assessed at actual value in accordance with the Organic Act of 1933. The U.S. District Court agreed with the plaintiffs and, in May 2003, imposed an injunction on the collection of real property taxes at values higher than the 1998 assessed value. The Government complied with the Court order to develop a plan to implement the new valuation method. In February 2007, the 2005 property tax assessments, based on 1998 assessment levels, were issued. In August 2008, the 2006 property tax assessments, based at actual value in accordance with the Organic Act of 1933, were issued. In September 2008, the 2006 property tax bills were rescinded by court order. In May 2009, the Government received court approval to reissue the 2006 property tax assessments; however, that approval was rescinded in June 2009. The Government subsequently issued the 2006, 2007 and 2008, 2009 property tax assessments, based on 1998 assessment levels, in April 2010, February 2011, August 2011, and February 2012 respectively. The 2010 and 2011 property tax assessments were issued in June 2012 and March 2013, at the 2008 assessment levels.

Landfill Closure and Post-Closure Costs

Federal laws and regulations, including the Clean Air Act, 42 U.S.C. § 7401 *et seq*. (“CAA”), and regulations promulgated thereunder, including the federal standards set forth in 40 C.F.R. Part 62, Subpart GGG (“Federal Plan”), and the National Emission Standards for Hazardous Air Pollutants for Municipal Landfill Maximum Achievable Control Technology, set forth in 40 C.F.R. Part 63, Subpart AAAA (“Landfill MACT”), and the Solid Waste Disposal Act, 42 U.S.C. § 6901 *et seq*. (“RCRA”), and regulations promulgated thereunder, including federal municipal solid waste landfill operating, closure, and post-closure criteria set forth in 40 C.F.R. Part 258, and three EPA administrative orders issued pursuant to RCRA § 7003(a), 42 U.S.C. § 6973(a), and Territorial laws and regulations, including V.I. Code Title 19, Chapter 56 (Solid and Hazardous Waste Management), Title 12, Chapter 9 (Air Pollution Control), and Title 12, Chapter 21 (Virgin Islands Coastal Zone Management), and regulations promulgated thereunder, require the Government to construct and operate certain environmental control systems and otherwise comply with certain requirements during operation of each of its landfill sites, properly close the site (including placement of a final landfill cover) when the landfill (or portion thereof) stops accepting waste, and perform certain post-closure maintenance and monitoring functions at the site for 30 years following closure. Compliance costs during the operational phase will be paid prior to closure.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Landfill Closure and Post-Closure Costs (continued)

Although closure and post-closure costs will be paid only near or after the date that the landfill stops accepting waste, the Government reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $71.6 million reported as landfill compliance, closure, and post-closure care liability at September 30, 2011, represents the cumulative amount reported to date based on the use of the estimated capacity of each landfill. The Government will recognize the remaining estimated cost of closure and post-closure care as the remaining estimated capacities are filled. These amounts are based on what it would cost to perform all closure and post-closure care as of September 30, 2011.

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

Landfill	Estimated used capacity	Estimated closure date
Bovoni	66%	2020
Angilla	100%	Closed
Susannaberg	100%	Closed

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

14. Commitments and Contingencies (continued)

Primary Government (continued)

Wastewater Treatment Plant Consent Decree

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

Memorandum of Understanding - EPA

On August 21, 2002, the Government and the United States Environmental Protection Agency (EPA) entered into a memorandum of understanding documenting the EPA's agreement to support the renewal of the Territorial Pollutant Discharge Elimination System permit for its St. Croix distillery operations provided that the Government make certain funding available to (1) conduct treatability studies regarding the Virgin Islands Rum Industries, Ltd. effluent and the means to mitigate its potential environmental effects in the vicinity of the discharge, (2) identify practicable, available, reliable, and cost-effective potential mitigation measures, and (3) implement (or assist in the implementation of) such mitigation measures in the event such measures are determined by the V.I. Department of Planning and Natural Resources after consultation with EPA to be necessary and appropriate.

14. Commitments and Contingencies (continued)

Primary Government (continued)

Memorandum of Understanding – EPA (continued)

Pursuant to the memorandum of understanding, the Government's obligation to fund such activities is limited to $6 million in the aggregate, commencing on October 13, 2003. In June 2004, the Government entered into a three year contract with a locally licensed environmental consulting firm to facilitate the Government's commitments with the memorandum of understanding with the EPA.

Workers' Compensation Liability

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

Changes in the claims liability amount in fiscal year 2011, as recorded in the Government Insurance Fund was as follows (expressed in thousands):

	2011	**2010**
Claims payable - October 1	**$ 17,900**	$ 15,495
Incurred claims and changes in estimates	**11,094**	10,705
Payments for claims and adjustments expenses	**(8,652)**	(8,301)
Claims payable - September 30	**$ 20,342**	$ 17,899

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

14. Commitments and Contingencies (continued)

Component Units

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

In September 2005, WAPA Electric facilities were damaged by Tropical Storm Jeanne. Damages amounted to $1.3 million, and FEMA has determined that $438 thousand is eligible for reimbursement. WAPA has reported a receivable of $438 thousand as of June 30, 2011.

In October 2008, WAPA Electric facilities on the island of St. Croix were damaged by Hurricane Omar. WAPA has expended $2.7 million for storm cleanup and system restoration as of June 2010. The territory was declared a federal disaster after the hurricane and is eligible for reimbursement of 75% of what was expended according to the category of the damage. WAPA Electric has recorded a receivable from FEMA through the Office of Management and Budget – Public Assistance (OMB-PA) amounting to approximately $2.3 million.

In August 2010, WAPA Electric facilities were damaged by Hurricane Earl. WAPA has expended over $2 million for storm clean-up and restoration, which was completed in October 2010. The territory was declared a Federal disaster area after the Hurricane and is eligible for reimbursement of 75% - 80% of what was expended according to the category damage. WAPA recorded a receivable of $1.1 million from FEMA through the Virgin Islands Territorial Emergency Management Agency (VITEMA) Public Assistance Program as of June 30, 2011.

Six former employees have individually filed suits against the VIHA for wrongful discharge over the period 1997 through 2006. Three of the lawsuits were settled, with VIHA being required to pay $174,000 in settlement costs. Three lawsuits remain open as of September 30, 2011.

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

14. Commitments and Contingencies (continued)

Component Units (continued)

In 2002, the Federal Aviation Administration (FAA) conducted an on-site wildlife evaluation of the Anguilla Landfill, which is located next to the St. Croix airport. The FAA determined that the landfill posed an environmental and navigational threat to the airport due to flocks of birds that reside in the landfill area. The FAA may require VIPA to repay $9.3 million in federal grants and has refused further discretionary grants for the airport until VIPA shows progress toward closing the landfill. The landfill is now under the jurisdiction of the WMA. VIPA negotiated a remediation plan with FAA to close the landfill by December 2009, and subsequently WMA received an extension on the closure date to January 31, 2012.

In connection with the purchase of lands adjacent to the St. Croix airport, VIPA was awarded federal financial assistance from 1990 to 2002, totaling $8.02 million under a Real Property Acquisition Relocation Assistance Program. VIPA is in noncompliance with certain federal requirements of the assistance program. Noncompliance with requirements of federal financial assistance programs may result in a refund of the funds granted. VIPA management believes that noncompliance instances should not materially affect VIPA's financial position.

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

15. Retirement Systems

Plan Description

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

15. Retirement Systems (continued)

Plan Description (continued)

earned at least 20 years of government service or have reached the age of 55 with at least 10 years of credited service. Regular employees who have attained the age of 50 with at least 10 years of credited service can elect to retire early with a reduced benefit. Senators and members of the Legislature may receive a retirement annuity when they have attained the age of 50 and upon the completion of 6 years of credited service as a member of the Legislature.

Funding Policy

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

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

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

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

15. Retirement Systems (continued)

Funding Policy (continued)

The Government's required contribution for the year ended September 30, 2011 was 17.5% of the member's annual salary. Since April 1, 1991, required member contributions are 8.0% of annual salary for regular employees, 9.0% for senators, 11.0% for judges, and 10.0% for safety (hazardous employees) and eligible employees under Act 5226. Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, legislation was passed that provided for annual interest on refunded contributions of not less than 2.0%, nor more than 4.0%, per annum. GERS Board of Trustees approved a 2.0% effective annual interest rate on refunded contributions effective July 1, 2009. The Government's estimated annual required contributions (based on a fiscal year 2006 actuarial valuation), actual contributions made, and percentage contributed to the plan for the years ended September 30, 2011, 2010, and 2009, were as follows (expressed in thousands):

	Contractually Required Contributions	Contributions Made	Percentage Contributed
2009	$ 80,177	$ 80,177	100%
2010	$ 77,005	$ 77,005	100%
2011	$ 80,850	$ 80,850	100%

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

15. Retirement Systems (continued)

Funding Policy (continued)

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

For employees electing to retire under Section 8(b) of the Act, the Government contributes to GERS a sum equal to the additional contribution the employer and employee would have made had the employee received a salary four percent higher during the three years used to compute the employee's average compensation figure, plus a sum of $5,000. Based on this calculation, the amount due to GERS was $26.9 million as of September 30, 2011, of which $26.8 million had been remitted to GERS.

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

The University has two retirement plans in which all eligible employees are required to participate, the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and GERS. The TIAA-CREF is a defined-contribution pension plan covering participating, full-time faculty members and other exempt employees, under which the contributions, including employees' contributions, are used to purchase annuities. There are no unfunded past service costs, and vested benefits are equal to the annuities purchased under TIAA-CREF. As of September 30, 2011, 255 faculty members and other employees were TIAA-CREF participants. The number of active participants from the University participating in GERS as of September 30, 2011 was 243. Total contributions made by the University to TIAA-CREF and GERS participant accounts amounted to $2.4 million and $1.4 million, respectively.

15. Retirement Systems (continued)

Postemployment Benefits

In addition to the pension benefits described in Note 15, the Government provides other postemployment benefits (OPEB) of healthcare, prescription, dental and life insurance coverage. These benefits are provided in accordance with Title 3, Chapter 25, Subchapter VIII of the VI Code as part of a cost-sharing, multiple employer defined benefit OPEB plan, in which all component units of the PG participate and contribute. All employees who retire from government service after attaining age 55 with at least 30 years of service; except for policemen and firemen who can retire with at least 20 years of service, are eligible for these benefits.

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

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

The contribution requirements of plan members and the PG are legislated within the Virgin Islands Code, and may be amended, by the Virgin Islands Legislature. The plan is a non-funded pay-as-you-go plan, and expenditures are paid as they become due. For the years ended September 30, 2011 and 2010, the Legislature budgeted, and paid, $22.3 million and $19.6 million for retiree health insurance payments.

The PG's postemployment benefit cost is calculated on the annual required contribution of the PG, an amount actuarially determined. The first actuarial valuation was prepared as of October 1, 2007, in accordance with provisions of GASB Statement 45, *"Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."* This standard was implemented prospectively. Prior to the implementation of GASB Statement 45, the PG did not report an OPEB obligation. In future years, the actuarial valuation will be prepared bi-annually. For the fiscal year ended September 30, 2011, a roll-forward actuarial report was prepared by the actuarial consultant.

15. Retirement Systems (continued)

Postemployment Benefits (continued)

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

The following table shows the components of the PG's annual postemployment benefits cost for the fiscal year ended September 30, 2011, and the changes in the net estimated obligation for future payments of benefits:

Annual OPEB Cost and Net Postemployment Benefit Obligation

In thousands		
Annual required contribution	$	89,925
Interest on underfunded OPEB obligation		5,720
Adjustment to underfunded OPEB obligation		(5,683)
Annual OPEB cost		89,962
Employer contributions		(31,541)
Change in the net OPEB obligation	$	58,421
Net OPEB obligation - beginning of year	$	143,002
Change in the net OPEB obligation		58,421
Net OPEB obligation - end of year	$	201,423

Actuarial Accrued Liability and Funding Status

In thousands	
Actuarial Valuation Date	October 1, 2009
Actuarial Accrued Liability (AAL)	$1,069,562
Unfunded AAL	$1,069,562
Funded Ratio	0%

15. Retirement Systems (continued)

Postemployment Benefits (continued)

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

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members), and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the PG and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities, and the actuarial value of assets, consistent with the long-term perspective of the calculations. In the actuarial valuation dated October 1, 2007, liabilities at October 1, 2008 were rolled back to October 1, 2007, and actual benefit payments were used for the fiscal years ending September 30, 2009, 2010 and 2011.

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

The entry age normal actuarial cost method with costs on a level percentage of payroll basis was used to determine the annual required cost of OPEB benefits to retirees. Amortization is over an open thirty (30) year period as a level percentage of payroll. Payroll growth is assumed to be 3.0% per year for purposes of amortization.

This method is consistent with the cost method used by GERS and typically produces the most level annual required contribution each subsequent year as a percentage of payroll. The normal cost was rolled back using the ultimate trend rate. A discount rate of 4.0% per annum was used, compounded annually. The valuation assumed that the annual unit cost per covered individual (i.e., retiree or spouse) for medical, prescription drugs and dental care for fiscal year 2009 was $6,155, $1,401 and $184 for retirees under age 65; and $1,591, $1,885 and $184 for retirees over age 65. The normal cost reflects the average age of the covered population and is based on claims experience for fiscal years 2008 and 2009, with a two-thirds weighting applied to the more recent year.

15. Retirement Systems (continued)

Postemployment Benefits (continued)

Combined experience and a combined cost were used for the pre-65 and post-65 populations. A composite cost was determined for retirees and spouses by combining their claim experience. Dependent children claims were included in developing the composite retiree and spouse cost. Costs were trended forward to fiscal year 2011 and adjusted to reflect the fiscal 2011 plan design and the anticipated lag in claim payment.

16. Liquidity

Governmental Activities

At September 30, 2011, the Government reported an unrestricted net deficit in governmental activities amounting to $1.72 billion. The net deficit resulted from: (1) the 2008 financial markets collapse and subsequent recession resulting in a reduction in income tax revenue and increase in unemployment, (2) the delay in the issuance of the 2009, 2010 and 2011 property taxes due to a class action lawsuit, and (3) the negative effect of Internal Revenue Service regulations redefining the requirements for residency, and sourcing of income, for the Territory. The revised Internal Revenue Service regulations negatively impacted economic growth in the Territory and reduced the participants in the Government's economic development programs. Following is a summary of the Government's unrestricted net deficit for governmental activities for fiscal years 2007 through 2011:

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

Fiscal Year	Governmental Unrestricted Net Deficit	Decrease (Increase)
2007	$ (335,924)	$ (29,457)
2008	(513,201)	(177,277)
2009	(1,110,871)	(597,670)
2010	(1,408,601)	(297,730)
2011	(1,548,488)	(139,887)

16. Liquidity (continued)

Governmental Activities (continued)

The Government has initiated specific actions to improve its liquidity and future cash flows. The Government established the Office of Economic Opportunity to pursue grants through the American Recovery and Reinvestment Act of 2009, to generate jobs, to promote energy efficient appliances and automobiles, and to improve infrastructure. The Government has successfully attracted a rum producer (Captain Morgan) and retained an existing rum producer (Cruzan Rum) within the Territory. The Government has imposed budgetary restraints, including incentives for early retirement of government workers, salary reductions, personnel reductions and budgetary cut-backs for the entire government. The Government has also legislated increases in local taxes such as the gross receipts taxes and hotel taxes. The Government has met certain District Court requirements in connection with a taxpayer class-action lawsuit, allowing the release of 2007 and 2008 property tax assessments in fiscal year 2011, and the release of 2009 and 2010 property tax assessments in fiscal year 2012.

General Fund

At September 30, 2011, the Government reported a deficit fund balance in the General Fund of $73.8 million. This deficit represents an increase in the General Fund balance of $16.6 million from the 2010 fiscal year, mainly due to the issuance of working capital loans to offset deficits resulting from a decrease in tax revenue and expenditures exceeding revenues. Following is a summary of the General Fund balance for fiscal years 2010 and 2011:

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

Fiscal Year	Committed	Unassigned	Total
2011	$29,571	$358,255	$(73,837)

17. Fund and Net Assets Deficit

The following non-major funds have a fund or net assets deficit as of September 30, 2011 (in thousands):

Governmental Funds		Proprietary Funds	
General Fund	$ 142,404	PFA / viNGN	$ 983
Payroll Default	43,429	Bureau of Motor Vehicles	3,710
Antilitter & Beautiful Fund	49,680	V.I. Lottery	1,687
Interest Revenue Fund	2,780	VI Housing Finance Authority	3,000
Sewer Waste Water Fund	14,227	Consumer Protection Fund	200
Indirect Cost	1,847	Homestead & Home Loan Fund	–
Indirect Cost	2,733	Emergency Housing Fund	499
Indirect Cost Fund - New	1,064	Veteran's Housing Fund	–
V.I. Insurance Guarantee	1,361	Housing Conservation Revolving Fund	1,467
Union Arbitration Award	29,609	Housing Conservation Revolving Fund	1,537
Pharmaceutical Insurance	19,830	Frederiksted Small Business Revenue Fund	47
Internal Revenue Matching	990	Opening Fund Balance Adjustment for	
Matching Fund	306,306	Major Fund Calulation	3,209
Matching Fund	34,375	Government Insurance Fund	28,931
Caribbean Basin Initiative	73,788	Unemployment Insurance Benefit	
Health Revolving Fund	85,269	Payment (VIESA)	11,128
Central Warehouse Revolving	756	Unemployment Insurance	
Transportation Revolving	998	Clearing (VIESA)	33,758
Data Processing Revolving	74		$ 90,156
Public Transit Fund	10,059		
Tourism Advanced Revolving Fund	10,460		
Water Purchases Revolving Fund	30		
Transportation Trust Fund	39,744		
Industrial Development	1,682		
GR Bond Proceeds Fund	6,338		
Employment Security Administration	2,232		
Rural Library Extension Fund	567		
Fish and Game Fund	183		
Federally-Aided Educational Programs	15,509		
Special Federal Grant to Education	842		
Air and Water Pollution Control	6,376		
V.I. Planning Board Projects	2,978		
Highway Safety Fund	4,503		
Ving Fed/State Agreement	2,812		
V.I. Energy Office	3,641		

17. Fund and Net Assets Deficit (continued)

Governmental Funds		Proprietary Funds
Federal Programs / Department of Conservation	3,785	
PWD Federal Contribution	10,524	
Federal-Aided CAA	181	
Commission On Aging	24	
Land Bank Fund	8,462	
Air Pollution Cont Agency	278	
JTPA of 1983-1984	8,683	
Financial Service Fund	10,184	
Technical Assistant Grant - Cap	64	
Lt Government Law Revision Commission	3	
American Recovery Reinvestment Act	339	
Health Information Council Assistance	18	
State Fiscal Stabilization	9	
Drug Education Training Program	123	
Federal Health Program Not On Federal Letter of Credit System	526	
Food Stamp Welfare	2,496	
Elementary / Secondary Education	19	
Law Library	184	
Civil Defense Protection	908	
Rural Comm Fire Protection Program	187	
Boating Safety Program	576	
V.I. Law Enforcement	4,691	
V.I. Law Enforcement	293	
Forensic Science	74	
Vocational Rehabilitation	1,835	
V.I. Education Initiative Fund/N-Laps	4,689	
Hurricane Hugo Insurance Claims	5,711	
V.I. Army National Guard	2,266	
Emergency Drought Relief	178	
Outdoor Recreation Program	40	
WAPA Water Credits	1,000	
NSF Forfeiture Fund	3	
SBDA Management / Technical Assistance	8	
Juvenile Detention Center Fund	19	
Road Fund	2,814	
Road Fund	3,516	
Bond Proceeds	37,521	
Major Repair and Improvement Fund	56	
Water and Electrical Systems Project	1,698	
St. John Capital Improvement	19,924	
Disaster Relief Fund-Hugo	519	
St. Croix Capital Improvement	5,857	
District Potable Water Fund	1,151	

17. Fund and Net Assets Deficit (continued)

Governmental Funds		Proprietary Funds
District Streets Lighting Fund	2,721	
Federal Grants for all Agencies except Department of Education	1,691	
ARRA Grants for all Agencies except Department of Education	1,293	
DOE Federal Grants except ARRA	2,457	
PFA/Office of Economic Opportunity	1,180	
Paternity & Child Support	11,696	
Home Aged Revolving Fund	325	
Asset Recovery Fund	798	
V.I. Waste H20 Corrective Action Fund	3,225	
Hess Oil VI Co Endowment	–	
	$ 1,086,298	

18. Restatement and Component Units and Enterprise Fund Audit Report Modifications

Restatement

During the 2010 audit, the Waste Management Authority (WMA) restated its 2009 financial statements for $63.4 million to correct identified errors and properly reflect capital contributions and transfers in from the Government. As previously noted in Note 1, the balances of the WMA, which are reported as a nonmajor component unit, are reported one year in arrears. Therefore, the restatement to the 2009 WMA balances must be reflected as a restatement to the 2010 Government balances of the component units. Because the capital assets were previously recorded by the Government within governmental activities, the previously reported balances of governmental activities also require restatement. In addition, during 2011 the Virgin Islands Port Authority (VIPA) restated the 2010 financial statements to correct errors in the accounting of federal government capital contributions which were understated by $2.2 million. The following table represents the impact of the restatements on the Government's net assets (deficit) as of September 30, 2010:

	As previously reported	Adjustment	As Restated
Governmental activities	$ (943,958)	$ (61,316)	$ (1,005,274)
Component units	679,712	65,625	745,337

The following table represents the impact of the restatements on the Government's changes in net assets (deficit) for the year ended September 30, 2010:

	As previously reported	Adjustment	As Restated
Governmental activities	$ (204,173)	$ 707	$ (203,466)
Component units	(356)	3,602	3,246

Component Units and Enterprise Fund Audit Report Modifications

For the year ended September 30, 2011 the audit reports for the following component units and enterprise fund were modified to include qualifications over certain balances.

18. Restatement and Component Units and Enterprise Fund Audit Report Modifications (continued)

Virgin Islands Housing Finance Authority (VIHFA)

Effective March 11, 2008 the Legislature of the Virgin Islands transferred the housing components of the Virgin Islands Department of Housing, Parks and Recreation, the Community Development Block Grants and the Emergency Shelter Grants programs, which were previously operated by the Virgin Islands Department of Planning and Natural Resources, to VIHFA. Significantly all loans and unobligated cash balances were also transferred subsequent to March 11, 2008. VIHFA has not been able to record the assets which were transferred because titles and related values of such assets have not been provided. The independent auditor's report included a qualification on cash and cash equivalents of $17.0 million, investments of $4.4 million and capital assets of $11.9 million for the effects of not including the transferred assets in the September 30, 2011 financial statements.

Virgin Islands Public Television System (VIPTS)

Because of significant deficiencies in the management of capital assets VIPTS has not been able to provide a reliable inventory record of all assets owned by VIPTS, proper quantification of recorded values on the statement of net assets and proper accounting for the expiration and usefulness of capital assets the independent auditor's report included a qualification of the capital assets balance for $5.9 million as of September 30, 2011.

Virgin Islands Lottery Financial Statements (VI Lottery)

The Lottery did not maintain sufficient documentation for the amount Due to the Treasury of the Virgin Islands of $4.4 million in 2011; therefore the amount could not be substantiated. Accordingly, the independent auditor was unable to conclude whether such amount was fairly stated. Consequently, the VI Lottery audit report includes a qualification for the effects of adjustments, if any, to the Due to Treasury balance as of September 30, 2011.

18. Restatement and Component Units and Enterprise Fund Audit Report Modifications (continued)

Employees' Retirement System of the Government of the Virgin Islands (GERS)

The financial statements of GERS include investments in limited partnerships valued at $52.9 million. GERS lacks the procedures to assess the reasonableness of the reported values provided by the fund managers. GERS estimate of the recorded limited partnerships' value is based on information provided by the general partner of the limited partnerships. At September 30, 2011 GERS management elected to maintain the investment balance reported in the prior year for one of the limited partnerships due to uncertainty regarding the ultimate recoverability of the investment. In the opinion of the auditor, those procedures are not adequate to determine whether the investments approximate fair value is in conformity with accounting principles generally accepted in the United States of America. The effect of on the September 30, 2011 financial statements of GERS of not applying adequate procedures to determine the fair value of the securities is not determinable. The audit report was qualified due to this reason.

Virgin Islands Waste Management Authority (WMA)

In 2004 PFA issued Series 2004A revenue bonds for the purpose of using the proceeds to finance the planning, development, construction, renovation and equipping of a wastewater treatment facility, certain waste water collection systems and solid waste facilities. The maximum allocation to WMA of proceeds for the projects was $79 million. As of September 30, 2009, WMA has been able to record approximately $67 million of such assets; however, because of the effects of a possible adjustment resulting from the recording assets for the remaining $12 million, if any, the capital assets balance as of September 30, 2010 for $79.4 has been qualified. As previously discussed, the balances of the WMA, which are reported as a nonmajor component unit, are reported one year in arrears. Therefore, the VMA capital assets balance of $79.4 million which has been qualified is reflected in the component units' capital asset balance at September 30, 2011.

The resolution of the qualifications described above could result in the restatement of previously reported amounts of component units.

19. Subsequent Events

Primary Government

On November 14, 2011, PFA entered into a Property Tax Revenue Anticipation Note Loan Agreement ("the Retirement Incentive Program Notes"). Under the terms of the Loan Agreement, a local bank will loan PFA $13 million to fund: (i) payments made to employees who elect to retire under the Virgin Islands Economic Stability Act and receive the incentive payment of $10,000, (ii) expenses incurred by the Office of the Lieutenant Governor related to processing, issuing and collecting property tax bills, and (iii) loan issuance costs. The Retirement Incentive Program Notes have a term of five years, with interest based on the current rate of a five-year US Treasury Note, at the time of closing, plus 400 basis points. After the five year term expires, the Retirement Incentive Program Notes will convert to a term loan not to exceed two years.

On January 18, 2012, Hovensa, LLC, an oil refinery and major employer on the island of St. Croix, announced that it will cease operations in February 2012, due to significant operating losses. The refinery employs 1,200 people and has approximately 960 contractors. The company proposed a conversion of the facility to an oil storage terminal that will employ approximately 100 people, including contractors. In August 2012, the PG has requested HOVENSA to reopen the refinery using more fuel efficient technology, either under current ownership or new ownership.

On January 25, 2012, Hovensa, LLC published an offer to repurchase the outstanding tax-exempt private activity bonds, issued through PFA, amounting to $355.8 million, at a purchase price of $1,000 per $1,000 in aggregate principal amount, plus accrued but unpaid interest. The offer was accepted by the bond holders before the expiration date of February 17, 2012.

On February 15, 2012, property tax assessments for 2009 were issued at the 1998 assessment rates. On June 30, 2012, property tax assessments for 2010 were issued at the 2008 assessment rates. On March 5, 2013, property tax assessments for 2011 were issued at the 2008 assessment rates. The issuance of property taxes was delayed due to a Third Circuit Court of Appeals decree issued in June 2009 in connection with a class action lawsuit, which enjoined the Government from collecting property taxes at the 2008 assessment rate. The injunction was lifted in January 2011.

19. Subsequent Events (continued)

Primary Government (continued)

On September 7, 2012, PFA issued the 2012 Series A Working Capital Bonds ("2012 Series A Bonds"), the proceeds of which amounted to $142.6 million. The Government has pledged matching fund excise tax revenues for the timely payment of the principal and interest on the 2012 Series A Bonds. The 2012 Series A Bonds bear interest at 3.8% to 4.5% and mature from 2022 to 2032. The proceeds of the bonds were issued to: (i) provide a loan to the PG to be used for working capital required to finance certain operating expenses and other PG obligations; (ii) to fund certain debt service reserve accounts of the 2012 Series A Bonds, and (iii) to pay certain costs of issuing the Series 2012 Series A Bonds. The 2012 Series A Bonds maturing on or after October 1, 2023 are subject to optional redemption on or after October 1, 2022. The Series 2012 Series A Bonds maturing on October 1, 2022 are subject to mandatory sinking fund redemptions beginning on October 1, 2014. The PG has covenanted, commencing October 1, 2012, to annually set aside 4% of the matching fund revenues transferred to the PG pursuant to the Cruzan and Diageo Agreements and Indentures, and to apply that amount first to the outstanding principal of the 2012 Series A Bonds, if any, and next, for the early optional redemption of outstanding bonds issued for working capital purposes, including the 2012 Series A Bonds.

On September 4, 2012, the U.S. Department of Justice, and the PG, reached a proposed agreement that would settle the legal battle for control of the Golden Grove Correctional Facility (the "Facility") on the island of St. Croix. The case was first brought against the PG in 1986 when the U. S. Department of Justice alleged unconstitutional conditions at the prison under the Civil Rights of Institutionalized Persons Act. The settlement agreement would allow the PG to continue to run the Facility, if it complies with the U.S. Department of Justice requirement to hire an independent monitor to oversee implementation of court orders that would bring prison conditions up to constitutional standards.

On November 9, 2012, PFA issued the Series 2012A and Series 2012B Revenue Refunding Bonds amounting to $228.8 million, to pay working capital obligations amounting to $197.1 million, and to refinance broadband project obligations amounting to $31.7 million.

19. Subsequent Events (continued)

Primary Government (continued)

On February 12, 2013, Moody's Investors Service withdrew the ratings on the U.S. Virgin Islands general obligation gross receipts tax debt, issued through PFA, due to the lack of sufficient financial and operating information. The territory released its fiscal 2010 audited financial statements on November 30, 2012, twenty-six (26) months after the end of the fiscal year.

Component Units

As of September 30, 2011, a significant amount of work was completed by viNGN's architects on a NOC/DC/HQ building. On October 27, 2011, the viNGN Board met and decided to remove the CEO of viNGN and on December 8, 2011, the Board met and voted to have the agreement with viNGN's architect amended, to delete the design of the NOC/DC/HQ. As a consequence the work performed by viNGN's architects had to be written down. This resulted in an impairment loss of $262 thousand.

On September 30, 2011, The WAPA Governing Board held an emergency meeting to approve an extension of the $10 million working capital line of credit WAPA has with Banco Popular. In addition, the Board approved the extension of the $3 million fuel hedge line of credit with the bank until December 31, 2011.

On September 30, 2011, WAPA entered into a Memorandum of Agreement (MoA) with viNGN, Inc., a Virgin Islands Corporation and wholly owned subsidiary of the Virgin Islands Public Finance Authority (PFA), an autonomous instrumentality of the PG. Under the terms of the MoA, WAPA provided an in-kind land match amounting to $15.2 million in connection with the development and construction by viNGN of underground broadband lines utilizing the roadwork systems of the Virgin Islands. The term of the MoA is twenty-five (25) years upon execution, with two additional twenty-five (25) year terms unless either party provides a written notice of non-renewal not less than twelve (12) months, but no sooner than twenty-four (24) months prior to the expiration of the original term or any additional term.

19. Subsequent Events (continued)

Component Units (continued)

On October 1, 2012, PFA converted the Series 2009A Notes to the 2012A Loan Note. The notes have a term of five years, maturing on October 1, 2017 with interest of 300 points above the J.P. Morgan Chase Prime Rate, or 6.25%, whichever is higher.

On November 9, 2012, PFA issued the Series 2012A and Series 2012B Revenue Refunding Bonds amounting to $228.8 million, to pay PG working capital obligations amounting to $197.1 million, and to refinance viNGN project obligations amounting to $31.7 million.

On December 17, 2012, PFA issued the Series 2012C Revenue Bonds amounting to $35.1 million to (i) finance capital projects, (ii) fund debt service on the 2012C Bonds, and (iii) pay the costs and expenses of issuing the 2012C Bonds.

On December 15, 2011, the Legislature passed Act 7327, which forgave $30.8 million owed to the primary Government by the Governor Roy L. Schneider Hospital, and $52.6 million owed to the primary Government by the Governor Juan F. Luis Hospital and Medical Center, as of the date the Act was passed.

In January, 2013, the extension on the rum excise tax at a rate of $13.25 per proof gallon was approved by the US Congress through December 31, 2013, and made retroactive to January 1, 2012.

On April 15, 2012, WAPA Electric issued the 2012 Series A, B and C Electric System Revenue Refunding Bonds amounting to $65 million. The 2012 Series A Bonds amounted to $16 million and were issued to: i) refund WAPA Electric's outstanding Series 1998 bonds, and ii) pay certain costs associated with the issuance of the 2012 Series A bonds. The 2012 Series B Bonds amounted to $19 million and were issued to: i) refinance short-term loans, ii) fund certain debt service reserve accounts and iii) pay certain costs associated with the issuance of the 2012 Series B Bonds. The 2012 Series C Bonds amounted to $30 million and were issued to: i) refinance WAPA's working capital lines of credit and overdraft credit facilities, ii) fund certain debt service reserve accounts, and iii) pay certain costs associated with the issuance of the Series C Bonds.

19. Subsequent Events (continued)

Component Units (continued)

On June 28, 2012, WAPA filed an emergency rate increase with the Public Service Commission (PSC), WAPA was seeking a $16.2 million increase in base electric rate and a $2.6 million increase in base water rate. On July 6, 2012, the PSC approved an increase of $8.6 million for the electric system and $1.5 million for the water system, to be effective with bills rendered after August 1, 2012.

Should WAPA be unable to realize an increase in net assets in 2013, Management believes they will discontinue the application of ASC No. 980.

ACT 7373 prohibits WAPA from back billing customers for the water system or the electric system except for faulty meters and billing errors after three months.

There are proposed changes to the retirement system that could affect WAPA’s employees going forward. The GERS is proposing increasing the Tier 1 regular employee and Tier 1 Class 3 hazardous duty employee contribution rate by 1 percent each year for three years beginning October 1, 2013. The Tiers are based on an employee's hire date relative to when the GERS Reform Act of 2005 went into effect; those before October 1, 2005, are Tier 1 and those hired after that date are Tier 2 employees.

Pension Trust Fund

On October 1, 2011, the Virgin Islands Economic Stability Act of 2011 requires any member of GERS with thirty or more years of credited service, not electing early retirement on or before September 30, 2011, to pay an additional 3 percent GERS member contribution based on gross salary. The Virgin Islands Economic Stability Act also mandated an 8% reduction in the salaries of all employees of autonomous and semi-autonomous agencies that receive funding from the general fund for the period July 4, 2011 through July 3, 2013. Eligible government employees that elect to retire on or before July 3, 2013 are permitted to have their retirement annuity calculated on gross wages before the 8% reduction amount.

19. Subsequent Events (continued)

Pension Trust Fund (continued)

On November 14, 2011, the GERS entered into a loan agreement with the Government of the Virgin Islands (GVI) in the amount of $13 million at an interest rate of 4.91% and a maturity date of December 15, 2016. The security for the note is the pledged real property tax receipts from the delinquent real property tax receivables, including penalties and interest for tax years prior to and including 2005 totaling approximately $36 million.

On November 2, 2012, GERS entered into a loan agreement with Seaborne Virgin Islands, Inc. in the amount of $1.5 million as part of a modification agreement of existing loans with Seaborne Virgin Islands, Inc. The loan term is five (5) years with an interest rate of 6.25% per annum. The loan is payable in twenty (20) quarterly installments of principal in the amount of $75 thousand each, plus interest, with the entire balance due with the 20th payment.

On July 18, 2012, GERS executed a credit facility n the amount of $10 million with a per annum interest rate of 15% with the limited partnership Attilanus L. P. The purpose of the credit facility is to meet on-going premium costs and certain other expenses in connection with senior life insurance policies owned by GERS for retirees age 65 and older who have a life expectancy of 5 to 7 years. The facility is structured as a note where principal repayments eliminate the future amount available. Unpaid principal and accrued interest become due on July 10, 2017.

Required Supplementary Information

Required Supplementary Information (other than MD&A)

Government of U.S. Virgin Islands

Schedules of Funding Progress

September 30, 2011

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

Actuarial valuation Date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
Pension Plan						
2009(*)	1,534,899,736	1,397,261,661	2,932,161,397	52.35%	458,154,309	304.98%
2010(**)	1,505,970,212	1,513,059,673	3,019,029,885	52.53%	458,154,309	343.86%
2011(***)	1,448,926,591	1,719,110,906	3,168,037,497	45,74%	403,473,988	426.08%

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

(**) Estimated based on the financial information provided as of September 30, 2010, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2010, matched that assumed by the actuarial assumptions.

(***) Estimated based on the financial information provided as of September 30, 2011, for the actuarial value of assets. For the unfunded actuarial accrued liability (UAAL) amount was projected from the last completed actuarial valuation as of October 1, 2006, assuming that actual experience during the October 1, 2006 to September 30, 2011, matched that assumed by the actuarial assumptions.

Actuarial valuation -September 30, 2006 and thereafter:
Actuarial accrued liability determined under the Entry Age Normal Method.

Required Supplementary Information (other than MD&A)

Government of United States Virgin Islands

Schedules of Funding Progress (continued)

Postemployment Benefits Other Than Pensions

Actuarial valuation Date	(a) Actuarial value of assets	(b) Unfunded actuarial accrued liability (UAAL)	(c) Actuarial accrued liability (a) + (b)	(d) Funded Ratio (a)/(c)	(e) Annual covered payroll	UAAL as a percentage of covered payroll (b)/(e)
OPEB						
2007	$ –	$ 976,455,000	$ 976,455,000	–	N/A	N/A
2009	$ –	$1,069,562,000	$1,069,562,000	–	$418,467,000	255.59%

Required Supplementary Information (other than MD&A)

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

Schedule of Employer Contributions

September 30, 2011

	Annual required contributions	**Contributions made**	**Percentage contributed**
Year ended September 30,			
2008*	$138,488,871	$75,871,146	54.79%
2009*	147,490,851	80,177,004	52.35%
2010*	157,817,709	77,004,630	48.79%
2011*	162,841,336	80,849,762	49.65%

* Estimated based on Fiscal Year 2006 actuarial valuation.

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