AUDITED FINANCIAL STATEMENTS

Virgin Islands Public Finance Authority
(a blended component unit of the Government of the
United States Virgin Islands)
Year Ended September 30, 2016
With Report of Independent Auditors

Ernst & Young LLP

EY
Building a better
working world

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Audited Financial Statements

Year Ended September 30, 2016

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Building a better working world

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Report of Independent Auditors

The Board of Directors
The Virgin Islands Public Finance Authority

Report on the Financial Statements

We have audited the accompanying financial statements of The Virgin Islands Public Finance Authority (the Authority or PFA), a blended component unit of the Government of the United States (U.S.) Virgin Islands (the Government), as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Virgin Islands Public Finance Authority at September 30, 2016, and the changes in its financial position and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Adoption of GASB Statement No. 72, Fair Value Measurement and Application

As described in Note 3 to the financial statements, the Virgin Islands Public Finance Authority adjusted its financial statements as a result of the adoption of Government Auditing Standards Board (GASB) Statement No. 72, Fair Value Measurement and Application, effective October 1, 2014. Our opinion is not modified with respect to this matter.

Emphasis of a Matter

As more fully discussed in Note 16, the Government of the U.S. Virgin Islands currently faces significant fiscal, economic and liquidity challenges, mainly as a result of the increasing governmental deficit position and high levels of debt and pension obligations. The Authority's activities are blended within the Government's audited financial statements and are reported as major funds, with the exception of the PFA operating account, which is reported as a nonmajor fund. The Authority's ability to repay its obligations and finance its operations is highly dependent on payments from the Government. There are no assurances that the Government's plans will be sufficient to avoid defaulting on its debts to the Authority and others. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States require that management's discussion and analysis on pages 4 through 13 and the Schedule of Authority's Share of the Net Pension Liability and Schedule of the Authority's Contributions on pages 92 through 93, respectively be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 16, 2017 on our consideration of the Authority'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* in considering the Authority's internal control over financial reporting and compliance.

Ernst & Young LLP

June 16, 2017

The Management and Board of Directors of the Virgin Islands Public Finance Authority (the "Authority") are pleased to present the following discussion and analysis of the Authority's financial performance for the fiscal years ended September 30, 2016 and 2015.

Please read this information in conjunction with the Authority's financial statements, which begin on page 19.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position, Statement of Cash Flows, and Notes to the Financial Statements presented on pages 14 through 91 provide information about the activities of the Authority as a whole.

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

FINANCIAL HIGHLIGHTS

Following is condensed financial information of the Authority as of and for the years ended September 30, 2016 and 2015:

(In thousands)	**2016**	2015
Condensed information from Statement of Net Position		
Assets:		
Current assets	**$ 559,003**	$ 492,812
Non-current assets excluding capital assets	**2,079,453**	2,090,194
Capital assets (net of depreciation)	**126,697**	129,580
Total assets	**2,765,153**	2,712,586
Deferred outflows of resources	**9,331**	10,510
Total assets and deferred outflows	**$ 2,774,484**	$ 2,723,096
Liabilities:		
Current liabilities	**$ 143,511**	$ 191,836
Long-term portion of bonds outstanding	**1,990,733**	1,927,644
Other liabilities	**560,817**	513,826
Total liabilities	**2,695,061**	2,633,306
Deferred inflows of resources	**221**	10,510
Total liabilities and deferred inflows	**$ 2,695,282**	$ 2,643,816
Net position:		
Net investment in capital assets	**$ 53,667**	$ 56,920
Restricted	**26,560**	25,171
Unrestricted (deficit)	**(1,025)**	7,699
Total net position	**$ 79,202**	$ 89,790
Condensed information from Statement of Revenue, Expenses and Changes in Net Position		
Operating revenues	**$ 14,994**	$ 15,323
Operating expenses	**(27,407)**	(25,171)
Operating loss	**(12,413)**	(9,848)
Non-operating income and other changes in net position	**1,825**	6,865
Change in net position	**$ (10,588)**	$ (2,983)

Non-current assets consist mainly of \$1.9 billion in loans receivable from the Government for fiscal years 2016 and 2015.

Capital assets decreased by \$2.9 million in 2016 mainly due to purchases and construction of assets amounting to \$5.6 million, offset by depreciation and amortization expense of \$8.5 million and disposals of \$17 thousand.

Long-term portion of bonds outstanding increased by \$63 million primarily due to the issuance of the Federal-Aid Highway bonds.

The net position of the Authority decreased by \$10.6 million during fiscal year 2016 mainly due to losses incurred by the Authority amounting to \$12.4 million, including losses of the component units of \$6.5 million (see Note 15) offset by non-operating income of \$1.8 million.

In 2016, operating revenues experienced a decrease of \$2.5 million, mainly due to decreases in management fees received in connection with bonds and notes issued during the current fiscal year.

Business Type Activities

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

Following is condensed financial information for WICO and King's Alley for the years ended 2016 and 2015:

	WICO		King's Alley	
(In thousands)	**2016**	**2015**	**2016**	**2015**
Operating revenues	**\$ 9,144**	\$ 9,502	**\$ 615**	\$ 581
Operating expenses	**(9,924)**	(9,800)	**(1,019)**	(963)
Operating income (loss)	**(780)**	(298)	**(404)**	(382)
Nonoperating revenues	**142**	1,236	**–**	1
Nonoperating expenses	**(2,727)**	(2,765)	**–**	–
Nonoperating income (loss)	**(2,585)**	(1,529)	**–**	1
Change in net position	**\$ (3,365)**	\$ (1,827)	**\$ (404)**	\$ (381)

WICO's operating revenues consist of agency fees charged to cruise lines and rental income. Operating expenses consist of expenses to operate the port facility. During fiscal year 2016, operating losses increased by $482 thousand mainly due to increases in depreciation expense.

WICO secured financing for additional development of its port facilities. Phase II of WICO's dock expansion projects include replacement of WICO's 60-ton bollards, with 150-ton bollards, along with the refurbishment of the bulkhead to allow the dock facility to handle larger ships securely, totaling approximately $304 thousand during fiscal year 2016.

WICO's Phase II project includes replacement of 32 older 60-ton bollards with newer, larger 150-ton bollards, as well as replacement of 750 feet of dock bulkhead. The Long Bay Landing portion of the project including plans to construct a new dock, with two new unrestricted berths, is being reassessed. The proposed new dock will accommodate larger ships, with passenger capacity of more than 4,000 guests. Estimated projections determine that construction of the new dock facilities will provide at least 100 additional calls, as major cruise lines have expressed interest in the proposed berthing opportunities.

King's Alley operating loss of $404 thousand in fiscal year 2016, is mainly due to depreciation of $484 thousand, offset by increased income from charges for services.

Grant Administration

The Office of Economic Opportunity ("OEO") is a business unit of the Authority that was formed on June 12, 2009 to provide oversight of federal funds awarded to the Territory under the American Recovery and Reinvestment Act of 2009, also known as "ARRA", "the Stimulus Program", and "the Recovery Program".

Following is condensed financial information for OEO for the years ended 2016 and 2015:

	Office of Economic Opportunity	
(In thousands)	**2016**	**2015**
Operating revenues	**$ –**	$ –
Operating expenses	**(21)**	(1,129)
Operating loss	**(21)**	(1,129)
Nonoperating revenues – interfund transfers	**–**	2,240
Nonoperating revenues – Interest	**1**	5
Change in net position	**$ (20)**	$ 1,116

OEO did not receive any awards during fiscal year 2016 and is winding down its activities. Operating expenses of $21 thousand in fiscal year 2016, consisted of grant expenditures not covered by grant guidelines.

Broadband Initiative – viNGN

viNGN, INC d/b/a Virgin Islands Next Generation Network ("viNGN") was incorporated on October 22, 2010, and is owned by the Government of the US Virgin Islands through the Virgin Islands Public Finance Authority.

The main purpose of viNGN is to design, develop, engineer, construct and manage a middle mile wholesale fiber optic network in order to provide reliable high speed internet connections at affordable prices and equal terms to all retail internet service providers and public infrastructure stewards; to establish telework support centers; to establish public computer centers; to provide the internet infrastructure for expanded communication for public safety and health facilities; to provide the internet infrastructure to foster retention of jobs and businesses; to provide training to the public; to coordinate the deployment of fiber strands; and, to reinvest a part of the proceeds from such activities to sustain and support the continuation of the foregoing activities and other authorized purposes of viNGN.

Following is condensed financial information for viNGN for the years ended 2016 and 2015:

	viNGN	
(In thousands)	**2016**	**2015**
Operating revenues	**$ 3,527**	$ 2,565
Operating expenses	**(8,899)**	(9,810)
Operating loss	**(5,372)**	(7,245)
Nonoperating revenues	**10**	4,041
Loss before capital and in-kind contributions	**(5,362)**	(3,204)
Capital contributions from federal grants	**–**	1,011
Decrease in net position	**$ (5,362)**	$ (2,193)

viNGN's operating revenues increased in fiscal year 2016 due to the expansion of the network. viNGN completed the installation of two undersea cables that link both the islands of St. Croix and St. Thomas. viNGN also entered into several agreements with various internet service providers (ISPs) increasing its revenue.

Investment Administration

The Authority manages the assets of all outstanding bond and note series. Assets of defeased bond series are managed by trustees of the defeased bond series.

Investments under management for fiscal years 2016 and 2015, were as follows:

	Restricted Cash and Investments	
(In thousands)	**2016**	**2015**
Investments under management	**$ 470,378**	$ 516,711
Other restricted cash, cash equivalents and investments	**130,533**	2,467
	$ 600,911	$ 519,178

DEBT ADMINISTRATION

At year-end, the Authority had approximately $2 billion in bonds outstanding, net of premiums and discounts, as follows (in thousands):

	Bonds Outstanding 9/30/2015	New Issuances	Debt Payments	Bonds Outstanding 9/30/2016
Matching Funds Revenue Bonds	$ 1,244,730	$ –	$ (43,575)	$ 1,201,155
Gross Receipts Revenue Bonds	745,755	–	(23,445)	722,310
Federal-Aid Highway Bonds	–	89,880	(4,465)	85,415
Total	$ 1,990,485	$ 89,880	$ (71,485)	$ 2,008,880

In December 2015, the Authority issued Federal-Aid Highway bonds, the proceeds of which were loaned to finance capital projects within the territory (see Note 6).

At September 30, 2016, defeased bonds outstanding from prior years amounted to $72.9 million (1989 and 1999 Series).

Loans and notes payable outstanding were as follows:

	(In thousands)			
	Loan Outstanding 9/30/2015	New Issuances	Debt Payments	Loan Outstanding 9/30/2016
2015 A Revenue Anticipation Notes	$ 40,000	$ –	$ (40,000)	$ –
2014 E Notes	40,000	20,000	(60,000)	–
2014 B Notes	12,000	–	(2,000)	10,000
2013 A Notes	2,515	1,270	(1,585)	2,200
2012 A TIF Notes	13,020	–	(276)	12,744
2011 B Revenue Anticipation Notes	5,816	–	(819)	4,997
WICO	31,877	304	–	32,181
Total	$ 145,228	$ 21,574	$ (104,680)	$ 62,122

In December 2015, the Authority issued an additional $20 million in notes with the Subordinate Lien Revenue Anticipation Notes Series 2014 E (Virgin Islands Gross Receipts Taxes Loan Note). The proceeds of the 2014 E Note were loaned to the Government to fund certain operating expenses of the Government and to fund the costs of issuing the notes. As of February, 2016, the outstanding balance of the Subordinate Lien Revenue Anticipation Notes Series 2014 E had been defeased (see Note 7).

On March 29, 2016, WICO entered into a short-term loan with Banco Popular de Puerto Rico in the amount of $834 thousand. The loan has an interest only period of twelve (12) months from the issue date at an interest rate of 5.25%. The interim financing is in connection with the establishment of a fixed asset account of $500 thousand for future capital projects. At September 30, 2016, the outstanding balance of the loan was $834 thousand.

In November 2014, WICO finalized an interim financing agreement to procure a loan with Banco Popular de Puerto Rico. The agreement provides for a loan in the amount of $3.75 million bearing interest at 6.75% per annum. The loan has an interest-only period of twelve (12) months from the issue date. Additionally, the payments are based on a twenty-five (25) year amortization, with a final maturity in six (6) years. This interim financing provides funding for a new pier on the island of St. Thomas. At September 30, 2016, the outstanding balance of the loan was $3.7 million.

As of September 30, 2016, WICO was not in compliance with certain debt service coverage requirements and did not maintain sufficient cash for one year in the debt service reserve account. The debt service coverage target was not met by $768,596. WICO will deposit this amount in the debt service reserve account upon the Bank's review and evaluation of WICO's audited financial statements. This is not considered an event of default under the loan agreement. WICO complied with the debt service coverage and debt service reserve requirements during the year ended September 30, 2015.

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

Tax Collections

Bonds and notes issued by the Authority are supported by loans made to the Government, which are repaid solely by pledged rum excise tax revenues, gross receipts tax revenues, and real property tax revenues, as more fully described in Note 6 of the accompanying financial statements. Rum excise taxes are Federal excise tax collections from rum which are returned to the Government of the Virgin Islands from the U.S. Federal Government. Rum production occurs at two private facilities. Gross receipts tax revenues are a tax on gross professional services and sales. Property tax revenues are a tax on assessed property values or incremental values in financing districts.

Debt service payments of principal and interest from these revenue sources for the past two years are as follows:

	Year Ending September 30	
(In thousands)	**2016**	**2015**
Excise rum tax	**$ 108,995**	$ 105,233
Gross receipts tax	**64,160**	64,736
Federal highway grants	**7,574**	–
Property tax	**41,578**	1,437

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

Investment Performance and Agreements

The Authority investments include AAAm (S&P) and Aaa-mf (Moody's) rated money market funds, AA+ (S&P) and Aaa (Moody's) rated government securities, and, A-1 (S&P) and P-1 (Moody's) rated commercial securities. Due to declining interest returns, the Authority entered into three debt service agreements with Morgan Stanley Capital Services, Inc., during fiscal year 2002. The agreements were amended in October 2009, and revised in April 2010, to redefine the bond series guaranteed as a result of the 1998 Bond debt refunding. The terms of the agreements provide a guaranteed return in exchange for the guaranty of Authority debt service reserves. The Authority received $1.6 million in fees upon entering into the agreements and a guaranteed average rate of return of 5% to 6% on the $42.4 million investments subject to the agreements.

Financial Condition

In January and March of 2017, the matching fund bonds and gross receipts tax bonds of the Authority experienced credit rating downgrades due to the financial and budgetary challenges experienced by the Government. Such downgrades are likely to negatively impact the Authority and Government's ability to access credit markets or to access them at supportable rates in the foreseeable future. In March, 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five year plan of revenue initiatives and cost-cutting measures. The challenge of unfunded pension liabilities was addressed through increases in the contribution rates of the employers and members participating in the Government's multiple employer cost-sharing pension plan. The administrator of the pension plan, GERS, is an independent and separate agency of the Government. There can be no assurance that the Government's actions will be sufficient to enable the Authority to refinance or repay its obligations. To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition and it is unknown what impact, if any, the Government's financial condition will have on the Authority. While the Bonds and Notes issued by the Authority are supported by the Government's pledge revenues, the Authority is highly dependent on the Government repaying its loans to the Authority for the Authority to repay its obligations and fund its operations. The Government is in a significant net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations. As of September 30, 2016, all payments on the Bonds and Notes have been made as required and the Authority is in compliance with all related covenants.

Contacting the Company

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

Virgin Islands Public Finance Authority
32 & 33 Kongens Gade, Government Hill
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Financial Statements

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Net Position

September 30, 2016

Assets	
Current assets:	
Cash and cash equivalents	$ 18,400,127
Restricted cash and cash equivalents	130,532,676
Restricted investments, at fair value	327,496,717
Receivables, net	2,615,186
Restricted loans receivable - Government of the U.S. Virgin Islands	78,993,833
Prepaid expenses and other assets	964,447
Total current assets	559,002,986
Noncurrent assets:	
Restricted investments, at fair value	142,881,827
Restricted loans receivable - Government of the U.S. Virgin Islands	1,936,571,706
Capital assets, non depreciable	13,869,654
Capital assets, depreciable, net	112,826,934
Total noncurrent assets	2,206,150,121
Total assets	2,765,153,107
Deferred outflows of resources	
Deferred losses on bond refundings, net	8,261,256
Deferred amounts related to pensions	1,069,740
Total assets and deferred outflows of resources	$ 2,774,484,103

Continued

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Net Position (continued)

September 30, 2016

Liabilities	
Current liabilities:	
Accrued expenses and other liabilities	$ 10,753,195
Loan payable related to capital assets	708,732
Notes payable	8,638,833
Bonds payable	73,530,000
Interest payable	49,879,802
Total current liabilities	143,510,562
Noncurrent liabilities:	
Loans payable related to capital assets	31,472,331
Notes payable	21,302,333
Net pension liability	4,188,003
Bonds payable, net of net unamortized bond premiums and discounts of $55,383,121	1,990,733,300
Due to Government of the U.S. Virgin Islands - construction funds	298,778,675
Due to Government of the U.S. Virgin Islands - debt service funds	205,075,306
Total noncurrent liabilities	2,551,549,948
Total liabilities	2,695,060,510
Deferred inflows of resources	
Deferred amounts related to pensions	221,277
Total liabilities and deferred inflows of resources	$ 2,695,281,787
Net position	
Net investment in capital assets	53,666,876
Restricted for debt service	26,560,451
Unrestricted (deficit)	(1,025,011)
Total net position	$ 79,202,316

See accompanying notes.

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Revenues, Expenses and Changes in Net Position

Year Ended September 30, 2016

Operating revenues:		
Charges for services	$	14,803,506
Other operating revenues		190,589
Total operating revenues		14,994,095
Operating expenses:		
General and administrative		18,923,114
Depreciation and amortization		8,483,883
Total operating expenses		27,406,997
Operating loss		(12,412,902)
Nonoperating revenues (expenses):		
Investment income:		
Cash, cash equivalents and investments		916,862
Loans receivable - Government of the U.S. Virgin Islands		104,044,474
Budgetary allocation		3,500,000
Interest expense		(106,071,628)
Other income		135,192
Contribution to the Government of the U.S. Virgin Islands		(700,000)
Total nonoperating income, net		1,824,900
Change in net position		(10,588,002)
Total net position at beginning of year		89,790,318
Total net position at end of year	$	79,202,316

See accompanying notes.

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Statement of Cash Flows

Year Ended September 30, 2016

Operating activities	
Cash received from customers	$ 14,898,320
Cash paid to suppliers and employees for services	(17,350,194)
Net cash used in operating activities	(2,451,874)
Investing activities	
Purchases of investments	(721,885,343)
Interest received on cash, cash equivalents and investments	603,278
Investment maturities and sales	638,998,141
Net cash used in investing activities	(82,283,924)
Capital and related financing activities	
Proceeds from loan issuance	334,225
Acquisition of capital assets	(5,600,523)
Principal payments on loans payable related to capital assets	(2,075,890)
Net cash used in capital and related financing activities	(7,342,188)
Noncapital financing activities	
Funds received for debt service	277,096,615
Payments to Cruzan	(40,372,209)
Payments to Diageo	(35,583,781)
Bank and other fees	(55,100)
Proceeds from issuance of bonds and notes payable	121,805,410
Budgetary allocation	3,500,000
Interest paid on bonds and notes payable	(109,245,916)
Federal grants	7,573,516
Payment of issuance costs	(2,390,646)
Transfer (to)/from the Government of the U.S. Virgin Islands	(44,816,752)
Principal payments on bonds and notes payable	(76,164,316)
Payments on behalf of Government of the U.S. Virgin Islands	(18,694,293)
Settlements received for the Government of the U.S. Virgin Islands	100,000
Net cash provided by noncapital financing activities	82,752,528
Net decrease in cash, cash equivalents and restricted cash	(9,325,458)
Cash, cash equivalents and restricted cash at beginning of year	158,258,261
Cash, cash equivalents and restricted cash at end of year	$ 148,932,803

Continued

Statement of Cash Flows (continued)

Year Ended September 30, 2016

Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (12,412,902)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Provision for doubtful accounts	(1,370)
Depreciation and amortization	8,483,883
Other income	135,192
Changes in operating assets and liabilities that increase (decrease) cash:	
Receivables	(180,122)
Accrued expenses and other liabilities	1,502,988
Prepaid expenses and other assets	17,457
Other	3,000
Total adjustments	9,961,028
Net cash used in operating activities	$ (2,451,874)

See accompanying notes.

1. Reporting Entity and Summary of Significant Accounting Policies

Reporting Entity

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

Blended Component Units

A component unit is reported as blended when either (1) the component unit's governing body is substantively the same as the Authority, and (a) there is a financial benefit or burden relationship between the Authority and the component unit, or (b) management of the Authority has operational responsibility for the component unit, or (2) the component unit provides services entirely, or almost entirely, to the Authority or otherwise exclusively, or almost exclusively, benefits the Authority, or (3) the component unit's outstanding debt is expected to be repaid entirely or almost entirely with resources of the Authority.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Reporting Entity (continued)

Blended Component Units (continued)

The following component units, provide services entirely or almost entirely to the Government, or have outstanding debt that is expected to be paid entirely or almost entirely with the Authority's resources:

- The West Indian Company ("WICO")
- King's Alley Management, Inc. ("KAMI")
- Virgin Islands Next Generation Network ("viNGN")

Although these entities are legally separate, they are reported as part of the Authority since they operate for the sole purpose of assisting and supporting the Authority in accomplishing its mission of providing management and financial services for the benefit of the Authority. The governance of each blended component unit is controlled by the Authority through the selection of the members of the Boards of Directors of each unit.

General Obligation Bonds

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

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies

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

Basis of Presentation and Accounting

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

The Authority prepares its financial statements in conformity with accounting principles generally accepted in the United States of America for a governmental enterprise fund, which are similar to those for private business enterprises. The Authority follows GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective October 1, 2012. Expenses are recorded when incurred and revenues are recorded when earned.

Basic Financial Statements

Standards for external financial reporting for state and local governments require that resources be classified for accounting and reporting purposes into net position categories and to report the changes in net position. Net position represents the residual interest in the Authority's assets and deferred outflows of resources after liabilities and deferred inflows of resources are deducted and consisted of the following categories:

- *Net investment in capital assets:* Capital assets, net of accumulated depreciation reduced by the outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction or improvement of those assets or related debt are also included in this component of net assets. The portion of debt attributed to the unspent debt proceeds or deferred inflows of resources is included in the same net position component as the unspent proceeds.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Basic Financial Statements (continued)

- *Restricted:* These result when constraints, on the use of net resources, are either externally imposed by creditors, grantors, contributors and the like, or imposed by law through constitutional provision or enabling legislation.
- *Unrestricted:* Resources that are not subject to externally imposed stipulations.

Liabilities that relate to specific restricted resources which exceed those resources are reported as a reduction of unrestricted amounts. All assets and liabilities of bond reserve accounts are considered restricted resources.

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

Statement of Cash Flows

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

Activities of the Authority

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

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

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

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Activities of the Authority (continued)

King's Alley Management, Inc.("KAMI"): Property management activities related to KAMI, a blended component unit, formed on July 22, 2001, consisting primarily of managing the King's Alley Hotel in Christiansted, St. Croix, and a shopping center in Frederiksted, St.Croix.

Virgin Islands Next Generation Network ("viNGN"): Operating entity in connection with the broadband expansion project formed on March 8, 2010, a blended component unit of the Authority. viNGN was incorporated on October 22, 2010, and its articles of incorporation were duly filed with the Office of the Lieutenant Governor of the United States Virgin Islands on October 12, 2010.

Office of Economic Opportunity ("OEO"): Oversight of the activities attributable to the American Recovery and Reinvestment Act of 2009 ("ARRA") formed on June 12, 2009. OEO is a business unit of the Authority.

See Note 15 for condensed financial statements of the major component units.

Cash and Cash Equivalents

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

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

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Receivables

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

Investments

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

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

Current investments include shares or interests in money-market funds, short-term United States Government and its agencies obligations, and investments agreements which mature in three months or less and are not designated for payment of current debt. Long-term investments are funds held in debt service reserve accounts not intended to convert to cash in the next fiscal year.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Deferred Outflows and Inflows of Resources

Under GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, the Authority reports separate sections in the Statement of Net Position for Deferred Inflows of Resources and Deferred Outflows of Resources. These separate financial statement elements represents a consumption or receipt of resources that applies to a future period and therefore will not be recognized as an inflow or outflow of resources until then. The Authority includes in the Deferred Outflow of Resources reporting category the deferred charges on refunded debt resulting from the difference in the carrying value of the refunded debt and its reacquisition price.

Under GASB Statement 68, *Accounting and Financial Reporting for Pensions,* differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and changes of assumptions about future economic or demographic factors or other inputs are reported as deferred outflows or inflows of resources related to pensions. The Authority reports in the Deferred Outflows of Resources the deferred components which are amortized over the average of the expected remaining service lives of its employees, and pension contributions made after the measurement date of September 30, 2015, and before October 1, 2016.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Authority reports amounts on the same basis as reported by the Government Employees Retirement System (“GERS”). Information about the fiduciary net position of GERS, recognition of benefit payments, and additions to/deductions from fiduciary net position, see GERS's separately issued audit report available at www.usvigers.com/Reports/AuditedFinancialReports.aspx. GERS investments are reported at fair value.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Bonds Payable

Bonds payable managed by the Authority are as follows:

Federal-Aid Highway Revenue Bonds: The proceeds of the bonds were issued to (i) finance costs of certain highway capital projects, (ii) established debt service reserves and (iii) pay the costs of issuance related to the Series 2015 Grant Anticipation Revenue Bonds.

Series 2015 A Revenue Bonds: The proceeds of the bonds were issued to (i) finance costs of approved road projects, (ii) establish debt service reserves, and (iii) finance costs of issuance of the Series 2015 A, B and C Bonds.

Series 2014 D Revenue Bonds: The proceeds of the bonds were issued to (i) finance certain costs associated with the broadband expansion program, and (ii) establish debt service reserves, and (iii) finance the costs of issuance related to the Series 2014 D Bonds.

Series 2014 C Revenue and Refunding Bonds: The proceeds of the bonds were issued to (i) advance refund the outstanding Series 2003 A Bonds, (ii) finance all or a portion of the costs of certain capital projects, and (iii) finance the costs of issuance related to the Series 2014 C Bonds.

Series 2014 A Revenue Bonds: The proceeds of the bonds were issued to (i) provide a loan to the Government to fund certain operating expenses and other obligations of the Government, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2014 A Bonds.

Series 2013 B Revenue and Refunding Bonds: The proceeds of the bonds were issued to (i) refund a portion of the Authority's 2004 A Bonds, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2013 B Bonds.

Series 2013 A Revenue and Refunding Bonds: The proceeds of the bonds were issued to (i) refund a portion of the Authority's 2004 A Bonds, 2009 A1 Bonds, and 2009 B Bonds, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2013 A Bonds.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Bonds Payable (continued)

Series 2012 C Revenue Bonds: The proceeds of the bonds were issued to (i) finance all or a portion of the costs of certain capital projects, (ii) fund capitalized interest on a portion of the 2012 C Bonds, and (iii) finance costs of issuance of the 2012 C Bonds.

Series 2012 A and B Revenue and Refunding Bonds: The proceeds of the bonds were issued to (i) refund the Authority's 1999A Bonds, 2011 A Note, and 2010 A Notes, (ii) establish debt service reserves, and (iii) finance costs of issuance of the 2012 A and B Bonds.

Series 2012 A Revenue Bonds: The proceeds of the bonds were issued to: (i) finance various operating expenses and other obligations of the Government, (ii) establish debt service reserves, and (iii) finance certain costs of issuance of the Series 2012 A Bonds.

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

Series 2009 A Revenue Bonds (Cruzan): The proceeds of the bonds were issued to (i) finance the costs of the development, acquisition, construction and installation of a wastewater treatment facility, (ii) fund certain preliminary costs of the alteration, upgrade, expansion and renovation of the Cruzan distillery on St. Croix., (iii) establish debt service reserves, and (iv) finance costs of issuance of the 2009 A Bonds.

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

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Bonds Payable (continued)

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

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

Payments on Behalf of the Government of the US Virgin Islands

Payments on behalf of the Government of the Virgin Islands for the fiscal year ended September 30, 2016, include payments for capital projects.

During the fiscal year ended September 30, 2016, the following amounts were disbursed and reported as a reduction of restricted resources held for the Government of the United States Virgin Islands in the statement of net position and as payments on behalf of the Government of the United States Virgin Islands in the statement of cash flows.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Payments on Behalf of the Government of the US Virgin Islands (continued)

Funding Source	Amount
2014 D Bonds	$ 2,428,971
2014 C Bonds	5,438,890
2014 A Bonds	867,930
2012 C Bonds	980,911
2009 A1, A2, B, and C R&R Bonds	862,345
2009 A Bonds (Diageo) - Community fund	853,020
2006 Bonds	33,539
2003 A Bonds	1,590,858
Administrative funds	637,829
	13,694,293
Budgetary transfers and other payments on behalf of the Government of the United States Virgin Islands	5,000,000
Total payments on behalf of the Government of the United States Virgin Islands	$ 18,694,293

During the fiscal year ended September 30, 2016, the Authority charged the Government fees amounting to $1.5 million for its investment and bond management services.

During the fiscal year ended September 30, 2016, the Authority charged $75,000 to the Tobacco Settlement Financing Corporation for annual investment and bond management services.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Taxes

The Authority is a tax-exempt entity created by statute. The Authority shall not be required to pay any taxes or assessments on any of the property acquired or to be acquired by it, or on any of its operations or activities, or on any income derived from any of its operations or activities. Prior to June 2003, WICO was required, under a specific bill, to contribute the greater of ten percent of net revenues, or $500,000 to the General Fund of the Government. In June 2003, the Legislature approved and amended the annual payment in lieu of taxes to the greater of ten percent of net revenues, as defined or $1,000,000. On October 10, 2007, the legislature decreased the $1,000,000 annual in lieu of tax payment to $700,000 retroactive to fiscal year 2006 and thereafter. The liability for contributions to the Government as of September 30, 2016, is $6,650,000 included in current liabilities in the statement of net position and represents payments in lieu of taxes due for the fiscal year 2006 and for the fiscal years 2008 through 2016. WICO is negotiating with the Government to resolve the outstanding tax liability and reduce future tax obligations.

Capital Assets

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

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

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

The Authority evaluates whenever events or changes in circumstances indicate that the carrying amount of its capital assets have been impaired following the guidance of GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Debt Refundings

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

Bond Discounts and Premiums

Bond discounts and premiums are amortized over the term of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond discount or premium.

Operating and Non-operating Revenues

Operating revenues of the Authority include revenues of the operating fund of the Authority, revenues from the West Indian Company complex, and King's Alley Management, Inc. complex. Non-operating revenues consist of settlement proceeds, interest and dividend income generated from the restricted investments invested in short term investment instruments, federal grants, and budgetary allocations for operations. During the fiscal year ended September 30, 2016, the Authority's operating budget of $6.9 million included $3.5 million of budgetary allocations from excess matching funds.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Intra-account Transfers

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

Fair Value of Financial Instruments

The Authority follows guidance provided by GASB Statement No. 72 (GASB 72), *Fair Value Measurement and Application* in measuring the fair value of assets and liabilities. Fair value is described as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at a measurement date. GASB 72 establishes a hierarchy of inputs for valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

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

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

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Effect of Recent GASB Statements

Effective October 1, 2015, the Authority implemented GASB Statement No. 72, *Fair Value Measurement and Application*. This GASB Statement addresses accounting and financial reporting issues related to fair value measurements for the Authority's assets and liabilities. Fair value is described as the exit price, or the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at a measurement date. The Statement establishes a hierarchy of inputs for valuation techniques used to measure fair value. The hierarchy has three levels. Level 1 inputs are quoted prices in active markets for identical assets and liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Finally, Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

Effective October 1, 2015, the Authority implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements No. 67 and 68*. This Statement improves the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. The adoption of this Statement has no impact on the Authority's reporting of pension liabilities.

Effective October 1, 2015, the Authority implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This Statement identifies the hierarchy of generally accepted accounting principles for governmental entities. The adoption of this Statement did not impact the reporting and disclosures of the Authority.

Effective October 1, 2015, the Authority implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement provides guidance for certain external investment pools to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The adoption of this Statement did not impact the reporting and disclosures of the Authority.

1. Reporting Entity and Summary of Significant Accounting Policies (continued)

Summary of Significant Accounting Policies (continued)

Effect of Recent GASB Statements (continued)

Effective October 1, 2015, the Authority implemented GASB Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, 68 and No. 73*, Amends Statement 67 and 68. This Statement requires the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure. Employers are also required to recognize expenses in the period for which the contributions are assessed.

Future Adoption of GASB Statements

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

Statement No.	Overview	Adoption Required in Fiscal Year
74	Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans	2017
75	Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions	2018
77	Tax Abatement Disclosures	2017
78	Pensions Provided Through Certain Multi-Employer Defined Benefit Pension Plans	2017
80	Blending Requirements for Certain Component Units	2017
81	Irrevocable Split-Interest Agreements	2018
83	Certain Asset Retirement Obligations	2019
84	Fiduciary Activities	2020
85	Omnibus 2017	2018
86	Certain Debt Extinguishment Issues	2018

2. Cash and Cash Equivalents

Cash and cash equivalents, segregated by category at September 30, 2016, are as follows:

	Bank Balance	Carrying Amount
Restricted	$ 127,579,355	$ 130,532,676
Unrestricted	21,694,759	18,400,127
	$ 149,274,114	$ 148,932,803

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

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

At September 30, 2016, $120,218,845 or 80.72% of the Authority's deposits in banks were held at Bank of New York, $28,560,837 or 19.18% were held at Banco Popular de Puerto Rico, and $151,058 or 0.10% were held at First Bank Puerto Rico. Petty cash of $354, $1,509 and $200 was held at WICO, viNGN and KAMI, respectively. Deposits held at Banco Popular de Puerto Rico and First Bank Puerto Rico were fully collateralized.

3. Restricted Investments

Investments include investments restricted for specific purposes and investments held in trust. Pursuant to the requirements of the Indenture of Trust, certain assets of the Government are maintained in a reserve account controlled by the Authority, and may be used only for the payment of principal and interest on the Series 2015 A Revenue Anticipation Notes, Series 2014 E Notes, Series 2014 D Revenue and Refunding Bonds, Series 2014 C Revenue Bonds, Series 2014 B Notes, Series 2014 A Revenue Bonds, Series 2013 B Revenue and Refunding Bonds, Series 2013 A Revenue and Refunding Bonds, Series 2013 B Notes, Series 2013 A Notes, Series 2012 C Revenue Bonds, Series 2012 A and B Revenue and Refunding Bonds, Series 2012 A Revenue Bonds, Series 2011 B Revenue Anticipation Notes, Series 2010 A and B Revenue Bonds, Series 2009 A Bonds (Cruzan), Series 2009 A1, A2, B, and C Revenue and Refunding Bonds, Series 2012 A TIF Notes, Series 2009 A Bonds (Diageo), Series 2009 A 911 Notes and Series 2006 A Revenue Bonds.

Restricted investments in the reserve accounts at September 30, 2016, were as follows:

	Debt Service	Construction Funds	Project Funds	Total
Series 2015 Grant Anticipation Revenue Bonds	$ 7,615,321	$ 91,258,772	$ –	$ 98,874,093
Series 2014 D Revenue Bonds	–	152,985	–	152,985
Series 2014 C Revenue Bonds	8,827	17,506,182	–	17,515,009
Series 2014 A Revenue Bonds	2,254	–	–	2,254
Series 2013 B Revenue & Refunding Bonds	6,485,103	–	–	6,485,103
Series 2013 A Revenue & Refunding Bonds	4,674,918	–	–	4,674,918
Series 2012 C Revenue Bonds	37,275	9,631,634	–	9,668,909
Series 2012 A and B Revenue & Refunding Bonds	35,482	–	–	35,482
Series 2012 A Revenue Bonds	18,324,663	34,493	–	18,359,156
Series 2010 A and B Revenue Bonds	49,560,785	–	–	49,560,785
Series 2009 A Bonds (Cruzan)	3,908,355	–	–	3,908,355
Series 2009 A1,A2, B, C Revenue & Refunding Bonds	56,569,683	11,865,992	–	68,435,675
Series 2009 A Bonds (Diageo)	36,812,696	–	–	36,812,696
Series 2006 Revenue Bonds	8,171	500,979	–	509,150
Series 2003 A Revenue Bonds			–	–
Series 1999 A Revenue Bonds	51,408,316	–	–	51,408,316
Series 1998 A Revenue Bonds	102,969,892		–	102,969,892
Subtotal Bonds	$ 338,421,741	$ 130,951,037	$ –	$ 469,372,778
Series 2013 A Notes	–	–	799,412	799,412
Series 2012 A TIF Notes	206,354	–	–	206,354
Subtotal Notes	206,354	–	799,412	1,005,766
Total Bonds and Notes	$ 338,628,095	$ 130,951,037	$ 799,412	$ 470,378,544

3. Restricted Investments (continued)

The Authority measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered value hierarchy, as follows:

	September 30, 2016	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
Money Market Funds	**$ 431,217,981**	$ 431,217,981	$ –
Portfolio investements:			
Commercial paper	**39,160,563**	–	39,160,563
Total investments	**$ 470,378,544**	**$ 431,217,981**	**$ 39,160,563**

Restricted investments, categorized by investment type, and weighted average maturity, at September 30, 2016, are as follows:

	Fair Value	Weighted Average Maturity *(Years)*
Money Market Funds	$ 431,217,981	N/A
Portfolio investements:		
Commercial paper	39,160,563	0.008
Total fair value	39,160,563	0.008
Total investments	$ 470,378,544	

3. Restricted Investments (continued)

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

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

At September 30, 2016, the Authority's investment in money market funds were rated AAAm by Standard & Poor's, Aaa-mf and Aaa- by Moody's Investor Service. The Authority's investments in commercial securities were rated A-1 by Standard & Poor's and P-1 by Moody's. The Authority's investments in Federal Government instruments were rated AA+ by Standard & Poor's and Aaa by Moody's Investor Service.

Custodial Credit Risk. The Authority does not have a custodial credit risk policy. This is the risk that the Government will not be able to recover the value of its investments that are in the possession of an outside party. At September 30, 2016, all investments under management by the Authority were held in the name of The Bank of New York Trust Company, N.A., as Trustee for the Authority. Investments in the trust accounts are limited to the investments permitted by the trust indenture.

4. Restricted Loans Receivable

The Authority has evaluated the collectability of its restricted loans receivable from the Government based on current information including payment history and an assessment of the Government's current creditworthiness, and its ability to continue meeting principal and interest payments in accordance with loan agreements (see Note 16). At September'30, 2016, the Authority did not consider the loans due from the Government to be impaired, and has not reported an allowance for uncollectible balances.

4. Restricted Loans Receivable (continued)

The Authority loaned the proceeds of the Series 2015 A Revenue Anticipation Notes to the Government. The loans, which are secured with pledged property taxes collected for 2015 pursuant to Title 3, Section 31 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable. As of June 30, 2016, the Government had repaid the entire balance of this loan (see Note 7).

The Authority loaned the proceeds of the Series 2014 E Notes, Series 2014 D Revenue and Refunding Bonds, Series 2014 C Revenue Bonds, Series 2014 B Revenue Notes, Series 2014 A Revenue Bonds, Series 2013 B Revenue Notes, Series 2013 A Revenue Notes, Series 2012 C Revenue Bonds, Series 2012 A and B Revenue and Refunding Bonds, Series 2011 A Broadband Bond Anticipation Note, Series 2009 A 911 Notes, Series 2006 A Revenue Bonds, Series 2003 A Revenue Bonds, and the Series 1999 A Revenue Bonds to the Government. The loans, which are secured with pledged gross receipts taxes collected pursuant to Title 3, Section 43 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable (see Note 6 and Note 7).

The Authority loaned the proceeds of the Series 2013 B Revenue and Refunding Bonds, Series 2013 A Revenue and Refunding Bonds, Series 2012 A Revenue Bonds, Series 2010 A and B Revenue Bonds, Series 2009 A Bonds (Cruzan), Series 2009 A1, A2, B and C Revenue and Refunding Bonds, Series 2009 A Bonds (Diageo), and the Series 2004 A Revenue Bonds to the Government. The loans, which are secured with pledged matching fund revenues pursuant to Section 28(b) of the Revised Organic Act of the Virgin Islands, bear the same interest rates, maturities, and repayment terms as the bonds payable (see Note 6).

The Authority loaned the proceeds of the Series 2012 A TIF Notes to the Government. The loan, which is secured by Island Crossings Incremental Tax Revenue, bears the same interest rate, maturity, and repayment terms as the note payable (see Note 7).

The Authority loaned the proceeds of the Series 2011 B Revenue Anticipation Notes to the Government. The loans, which are secured with pledged property taxes collected for tax years up to and including 2005 pursuant to Title 3, Section 31 of the Virgin Islands Code, bear the same interest rate, maturities and repayment terms as the notes payable (see Note 7).

4. Restricted Loans Receivable (continued)

On September 30, 2016, the Government advanced bond payments due on October 1, 2016 to the Authority. A summary of bond payments by associated bond series follows:

Bonds Series	Payment
2014 D Bond	$ 175,000
2014 C Bond	4,995,000
2014 A Bond	1,560,000
2013 B Bond	5,250,000
2013 A Bond	2,320,000
2012 C Bond	1,775,000
2012 A and B Bonds	12,780,000
2012 A Bond	850,000
2010 A and B Bonds	2,395,000
2009 A Bonds (Cruzan)	705,000
2009 A1, A2, B and C Bonds	29,260,000
2009 A Bonds (Diageo)	4,890,000
2006 Bonds	3,240,000
	$ 70,195,000

5. Capital Assets

The capital assets for the fiscal year ended September 30, 2016, follows:

	Balance 9/30/2015	Additions	Impairment/ Disposal	Transfers	Balance 9/30/2016
Capital assets not being depreciated:					
Land and land improvements	$ 5,763,178	$ –	$ –	$ –	$ 5,763,178
Construction in progress	5,110,919	4,891,820	(17,552)	(1,878,913)	8,106,274
Capital assets being depreciated:					
Buildings and building improvements	72,283,404	3,995	–	–	72,287,399
Personal property and equipment	70,469,762	722,766	–	1,878,913	73,071,441
Intangible assets	18,636,837	–	–	–	18,636,837
Total	172,264,100	5,618,581	(17,552)	–	177,865,129
Less accumulated depreciation	(42,684,658)	(8,483,883)	–	–	(51,168,541)
Total capital assets, net	$ 129,579,442	$ (2,865,302)	$ (17,552)	$ –	$ 126,696,588

6. Bonds Payable

A summary of bond activity, net of premium and discounts, for the fiscal year ended September 30, 2016, follows (in thousands):

	Bonds Outstanding 9/30/2015	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2016
			(In thousands)		
Matching Funds Revenue Bonds	$ 1,244,730	$ –	$ (43,575)	$ –	$ 1,201,155
Gross Receipts Revenue Bonds	745,755	–	(23,445)	–	722,310
Federal-Aid Highway Bonds	–	89,880	(4,465)	–	85,415
Total	$ 1,990,485	$ 89,880	$ (71,485)	$ –	$ 2,008,880

6. Bonds Payable (continued)

At September 30, 2016, long-term debt consist of:

		(In thousands)
Revenue Bonds payable:		
Matching Funds Revenue Bonds	$	1,201,155
Gross Receipts Revenue Bonds		722,310
Federal-Aid Highway Bonds		85,415
Plus unamortized premium/discount, net		55,383
Total capital assets, net	$	2,064,263

Matching Funds Revenue Bonds

A summary of Matching Funds Revenue bond activity for the fiscal year ended September 30, 2016, follows (in thousands):

	Bonds Outstanding 9/30/2015	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2016
			(In thousands)		
Series 2013 B	$ 51,365	$ –	$ (5,070)	$ –	$ 46,295
Series 2013 A	36,000	–	(2,210)	–	33,790
Series 2012 A	141,840	–	(825)	–	141,015
Series 2010 A and B	392,840	–	(2,270)	–	390,570
Series 2009 A (Cruzan)	36,245	–	(670)	–	35,575
Series 2009 A1, A2, B and C	344,770	–	(27,955)	–	316,815
Series 2009 A (Diageo)	241,670	–	(4,575)	–	237,095
Total	$ 1,244,730	$ –	$ (43,575)	$ –	$ 1,201,155

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Bonds payable at September 30, 2016, in which federal arbitrage regulations apply, are comprised of the following (in thousands):

Series 2013 B Revenue and Refunding Bonds	
Interest at 3.00% to 5.00%	$ 46,295
Series 2013 A Revenue and Refunding Bonds	
Interest at 5.00% to 5.25%	33,790
Series 2012 A Revenue Bonds	
Interest at 4.00% to 5.00%	141,015
Series 2010 A and B Revenue Bonds	
Interest at 4.00% to 5.25%	390,570
Series 2009 A Revenue Bonds (Cruzan)	
Interest at 3.00% to 6.00%	35,575
Series 2009 A1, A2, B and C Revenue and Refunding Bonds	
Interest at 3.00% to 5.00%	316,815
Series 2009 A Revenue Bonds (Diageo)	
Interest at 6.00% to 6.75%	237,095
Total bonds payable	1,201,155
Less: Current portion	(45,670)
More: Unamortized bond premiums and discounts, net	12,855
Long-term portion of bonds payable	$ 1,168,340

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

On October 17, 2013, the Authority issued the Series 2013 B Revenue and Refunding Bonds, the proceeds of which amounted to $51,365,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Eighth Supplemental Indenture and the Series 2013B Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2013 B Bonds were issued to: (i) refund a portion of the Series 2004 A Bonds, (ii) fund the Series 2013 B Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2013 B Bonds. The Series 2013 B Bonds mature 2024 at an interest rate of 3.0% to 5.0%. The proceeds of the Series 2013 B Revenue and Refunding Bonds were placed in an irrevocable trust to provide for future debt service payments on the Series 2004 A. At October 1, 2014, the outstanding principal of the Series 2004 A Bonds was defeased through a call redemption amounting to $58,835,000.

On September 19, 2013, the Authority issued the Series 2013 A Revenue and Refunding Bonds, the proceeds of which amounted to $36,000,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Eighth Supplemental Indenture and the Series 2013 A Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2013 A Bonds were issued to: (i) refund a portion of the Series 2004 A Bonds, Series 2009 A1 Bonds, and Series 2009 B Bonds, (ii) fund the Series 2013 A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2013 A Bonds. The Series 2013 A Bonds mature from 2018 to 2024 at an interest rate of 5.0% to 5.25%. The proceeds of the Series 2013 A Revenue and Refunding Bonds were placed in an irrevocable trust to provide for future debt service payments on the Series 2004 A, Series 2009 A1, and Series 2009 B Bonds. 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 deferred loss of approximately $10.9 million and an economic loss of approximately $1.5 million.

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

On September 7, 2012, the Authority issued the Series 2012 A Revenue Bonds, the proceeds of which amounted to $142,640,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Seventh Supplemental Indenture and the Series 2012 Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2012 A Bonds were issued to: (i) finance various operating expenses and other obligations of the Government, (ii) fund the Series 2012 A Subordinate Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2012 A Bonds. The Series 2012 A Bonds mature from 2022 to 2032 at an interest rate of 4.0% to 5.0%.

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

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

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

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

On October 1, 2009, the Authority issued the Series 2009 A1, Series 2009 A2, Series 2009 B, and Series 2009 C Revenue and Refunding Bonds, the proceeds of which amounted to $458,840,000. These bonds are secured by a pledge of Matching Fund Revenues, which includes certain funds established under the original indenture, the Fourth Supplemental Indenture and the Series 2009 Loan Notes issued by the Government. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The Series 2009 A1 and the Series 2009 A2 Bonds were issued to: (i) finance various capital projects of the Government, (ii) fund the Series 2009 A Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 A1 and 2009 A2 Bonds. The Series 2009 A1 Bonds amounted to $86,350,000 and mature from 2010 to 2039 at interest rates from 3.00% to 5.00%. The Series 2009 A2 Bonds amount to $8,650,000 and mature from 2010 to 2011 at an interest rate of 3.00%. The Series 2009 B Bonds were issued to: (i) current refund the Series 1998 A Revenue and Refunding Bonds (Senior Lien/Refunding Bonds), (ii) fund the Series 2009 B Senior Lien Debt Service Reserve Account, and (iii) finance certain costs of issuance of the Series 2009 B Bonds. The Series 2009 B Bonds amount to $266,330,000 and mature from 2010 to 2025

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

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

On July 9, 2009, the Authority issued the Series 2009 A Bonds ("Diageo"), the proceeds of which amounted to $250,000,000. These bonds are secured by a pledge of Diageo Matching Fund Revenues (Matching Funds generated from the sale of Captain Morgan rum products), which includes certain funds established under the original indenture, the Third Supplemental Indenture and the 2009 Matching Fund Loan Note – Diageo Project, Series A issued by the Government. The bonds bear interest at 6.00% to 6.75% and mature from 2013 to 2037. The proceeds were loaned to the Government under the same terms as the bonds. The bonds are limited special obligations of the Authority. The bonds were issued to: (i) provide a grant to Diageo USVI, Inc. ("Diageo USVI") to finance the costs of the acquisition, design, development, construction and equipping of a rum production and maturation warehouse facility to be located on St. Croix (the Diageo Project) (ii) redeem the Subordinated Revenue Bond Anticipation Notes (Virgin Islands Matching Fund Loan Notes – Diageo Project) Series 2009 A issued to finance preliminary costs of the Diageo Project (iii) fund the Series 2009 A Senior Lien Debt Service Reserve Account, (iv) pay capitalized interest on the Series 2009 A Bonds, and (v) finance certain costs of issuance of the Series 2009 A Bonds. The Series 2009 A Bonds maturing on or after October 1, 2020 shall be subject to optional redemption on or after October 1, 2019, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued to the date fixed for redemption.

In association with the Series 2009 A Bonds, the Authority entered into an agreement with Diageo USVI, Inc. (Diageo), on June 17, 2008. Provisions of the agreement call for payments of excess matching funds, after debt service, debt service reserve, and sinking fund redemption payments, to Diageo of 49.5% - 57.0%.

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

The proceeds of the Series 1992 Revenue bonds were placed in an irrevocable trust to provide for all future debt service payments on the Series 1989 Revenue bonds. At September 30, 2016, the outstanding principal of defeased Series 1989 bonds was $6,150,000.

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

Pledged Funds

The Government has pledged the Matching Fund Revenues, as described below, to the timely payment of principal and interest on the Series 2013 B Bonds, Series 2013 A Bonds, Series 2012 A Bonds, Series 2010 A and B Bonds, Series 2009 A Bonds (Cruzan), the Series 2009 A1, A2, B and C Bonds, and the Series 2009 A Bonds (Diageo). Thus, all amounts to be received by the Government from federal rum excise tax are deposited directly in a trust account from which the 2013 B, 2013 A, 2012 A, 2010 A and B, 2009 A Cruzan, 2009 A1, A2, B and C, and 2009 A Diageo Bonds are paid in accordance with the Indenture of Trust.

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

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

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Interest on Bonds

Interest on the Series 2013 B Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2013 B Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the Series 2013 A Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2013 A Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the Series 2012 A Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 A Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues.

Interest on the Series 2010 A and B Bonds is payable semi-annually on April 1 and October 1, and principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2010 A and B Bonds. The principal and interest payments on October 1 are funded by the Matching Fund Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Matching Fund Revenues. The bonds were fully defeased through an optional redemption on October 1, 2014.

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Interest on Bonds (continued)

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

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

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

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Interest on Bonds (continued)

Interest expense related to matching fund revenue bonds payable during the fiscal year ended September 30, 2016, was as follows (in thousands):

Series 2013 B Revenue and Refunding Bonds	$	2,262
Series 2013 A Revenue and Refunding Bonds		1,720
Series 2012 A Revenue Bonds		6,979
Series 2010 A and B Revenue Bonds		19,659
Series 2009 A Revenue Bonds (Cruzan)		2,105
Series 2009 A1, A2, B, C Revenue and Refunding Bonds		15,740
Series 2009 A Revenue Bonds (Diageo)		15,894
Total	$	64,359

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Debt Service Requirements on Bonds

Maturity dates and debt service payment requirements as of September 30, 2016, for the Matching Funds Revenue Bonds are as follows (in thousands):

	Total Debt Services		
October 1	**Principal**	**Interest**	**Total**
2017	$ 45,670	$ 63,216	$ 108,886
2018	47,680	60,849	108,529
2019	50,170	58,335	108,505
2020	52,725	55,684	108,409
2021	55,435	52,888	108,323
2022-2026	322,025	216,806	538,831
2027-2031	369,475	123,429	492,904
2032-2036	189,585	42,885	232,470
2037-2041	68,390	5,935	74,325
	$ 1,201,155	$ 680,027	$ 1,881,182

The Series 2013 B and Series 2013 A Bonds are not redeemable at the option of the Authority.

The Series 2012 A Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2012 A Bonds	**Price**
October 1, 2023 and thereafter	100%

6. Bonds Payable (continued)

Matching Funds Revenue Bonds (continued)

Debt Service Requirements on Bonds (continued)

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

Series 2010 A and B Bonds	Price
October 1, 2021 and thereafter	100%

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

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

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

Series 2009 A1, A2, B and C Bonds	Price
October 1, 2019 and thereafter	100%

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

Series 2009 A Bonds (Diageo)	Price
October 1, 2020 and thereafter	100%

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds

A summary of Gross Receipts Revenue bond activity for the fiscal year ended September 30, 2016, follows (in thousands):

	Bonds Outstanding 9/30/2015	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2016
			(In thousands)		
Series 2014 D	$ 5,765	$ –	$ (165)	$ –	$ 5,600
Series 2014 C	247,050	–	(4,555)	–	242,495
Series 2014 A	49,640	–	(1,480)	–	48,160
Series 2012 C	33,445	–	(1,720)	–	31,725
Series 2012 A and B	206,900	–	(12,400)	–	194,500
Series 2006 A	202,955	–	(3,125)	–	199,830
Total	$ 745,755	$ –	$ (23,445)	$ –	$ 722,310

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Gross Receipts Revenue bonds payable at September 30, 2016, in which federal arbitrage regulations apply are comprised of the following (in thousands):

Series 2014 D Revenue Bonds		
Interest at 6.029%	$	5,600
Series 2014 C Revenue and Refunding Bonds		
Interest at 4.50% to 5.00%		242,495
Series 2014 A Revenue Bonds		
Interest at 5.00%		48,160
Series 2012 C Revenue Bonds		
Interest at 3.00% to 5.00%		31,725
Series 2012 A and B Revenue and Refunding Bonds		
Interest at 2.25% to 5.25%		194,500
Series 2006 A Revenue Bonds		
Interest at 3.50% to 5.00%		199,830
Total bonds payable		722,310
Less: Current portion		(24,525)
More: Unamortized bond premiums and discounts, net		31,820
Long-term portion of bonds payable	$	729,605

On December 3, 2014, the Authority issued the Series 2014 D Revenue Bonds, the proceeds of which amounted to $5,765,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The Series 2014 D Bonds were issued to (i) finance certain costs associated with the broadband expansion program, (ii) fund the debt service reserve of the Series 2014 D Bonds in an amount necessary to meet debt service requirements, and (iii) pay the costs of issuance related to the Series 2014 D Bonds accounts. The Series 2014 D Bonds mature in 2033 at an interest rate of 6.03%.

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

On November 14, 2014, the Authority issued the Series 2014 C Revenue and Refunding Bonds, the proceeds of which amounted to $247,050,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The Series 2014 C Bonds were issued to (i) refund the outstanding Series 2003 A Bonds, (ii) finance all or a portion of the costs of certain capital projects, and (iii) pay the costs of issuance related to the Series 2014 C Bonds. The Series 2014 C Bonds mature from 2015 to 2044 at an interest rate of 4.50% to 5.00%.

The proceeds of the Series 2014 C Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2016 to 2034 maturities of the Series 2003 A Bonds. Approximately $235,249,196 of bond proceeds were deposited into the Escrow Fund accounts. On December 1, 2014, the Series 2003 A bonds were defeased through the exercise of call redemptions.

On September 5, 2014, the Authority issued the Series 2014 A Revenue Bonds, the proceeds of which amounted to $49,640,000. These bonds are secured by the pledge of gross receipts tax revenues, and are subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) finance all or a portion of the costs of certain capital projects, as authorized by the Virgin Islands Legislature in 2013 V.I. Act 7499, as amended by 2014 V.I Act 7631 as further amended by 2014 V.I. Act 7637 and approved by the Authority by resolution, (ii) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve Requirement, and (iii) pay the costs and expenses of issuing and delivering the Series 2014 A Bonds. The Series 2014 A Bonds mature from 2015 to 2034 at an interest rate of 5.0%.

On December 19, 2012, the Authority issued the Series 2012 C Revenue Bonds, the proceeds of which amounted to $35,115,000. These bonds are secured by the pledge of gross receipts tax revenues, and are subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The bonds were issued to (i) provide a loan to the Government to be used to finance certain operating expenses and other obligations of the Government, (ii) fund capitalized interest on a portion of the Series 2012 C Bonds, and (iii) pay the costs and expenses of issuing and delivering the Series 2012 C Bonds. The Series 2012 C Bonds mature from 2017 to 2042 at an interest rate of 3.0% to 5.0%.

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

On November 20, 2012, the Authority issued the Series 2012 A and B Revenue and Refunding Bonds, the proceeds of which amounted to $228,805,000. These bonds are secured by the pledge of gross receipts tax revenues, subject to the annual moderate income housing fund deposit as well as any prior liens or pledges. The Series 2012A Bonds were issued to (i) refund the outstanding Series 1999 A Bonds, (ii) refund the outstanding 2010 A1 and A2 Notes, (iii) pay the costs and expenses of issuing and delivering the Series 2012 A Bonds, and (iv) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve requirement related to the Series 2012 A Bonds. The Series 2012 A Bonds mature from 2017 to 2032 at an interest rate of 2.25% to 5.0%. The Series 2012 B Bonds were issued to (i) refinance the outstanding 2011 A Notes, which initially financed the Broadband Project, (ii) pay the costs and expenses of issuing and delivering the Series 2012 B Bonds, and (iii) fund the Debt Service Reserve account in an amount necessary to meet the Debt Service Reserve requirement related to the Series 2012 B Bonds. The Series 2012 B Bonds mature in 2027 at an interest rate of 5.25%.

The current refunding of the Series 1999 A Bonds, on November 20, 2012, 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 $11.9 million and an economic gain of approximately $7.7 million.

On September 28, 2006, the Authority issued the Series 2006 A Bonds, the proceeds of which amounted to $219,490,000. These bonds are secured by a pledge of the Trust estate, which includes certain funds established under the original Indenture, the Seventh Supplemental Indenture and the 2006 Gross Receipts Taxes Loan Note, Series issued by the Government. The proceeds were loaned to the Government under the same terms as the Bonds. The bonds are limited special obligations of the Authority. The bonds bear interest at 3.50% to 5.00% and mature from 2007 to 2029. The proceeds of the bonds were issued to: (i) refund a portion of the Authority's Revenue Bonds, Series 1999 A, (ii) pay the cost of a termination fee in connection with an outstanding swap option agreement, (iii) fund certain capital projects, (iv) fund the Debt Service Reserve Account, (v) pay certain costs of issuing the Series 2006 A Bonds and (vi) fund a net payment reserve account for a new swap agreement. The Series 2006 A Bonds maturing on or before October 1, 2016 are not subject to optional redemption. The advance refunding of the 2024 and 2029 maturities of the Series 1999 A Bonds was made in order to obtain lower interest rates.

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

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 Series 2006 A Bonds related to the refunding were placed in a trust account to provide for all future debt service payments on the 2024 to 2029 maturities of the Series 1999 A Bonds. Approximately $175,125,168 of funds was deposited into the Escrow Fund accounts. At September 30, 2016, the amount of outstanding advance refunded Series 1999A Revenue Bonds amounted to $66,770,000.

Pledged Funds

The Government has pledged Gross Receipts Taxes subject to the annual moderate income housing fund deposit, as well as any prior lien or pledge, to the timely payment of the principal and interest on the Series 2014 E Notes, Series 2014 D Bonds, Series 2014 C Bonds, Series 2014 B Notes, Series 2014 A Bonds, Series 2013 B Notes, Series 2013 A Notes, Series 2012 C Bonds, Series 2012 A and B Bonds, Series 2011 A Notes, Series 2010 A1 and A2 Notes, and the Series 2006 A Bonds. The Government has contracted an independent certified public accounting firm to provide quarterly verification of gross receipts deposits made to the collecting agent, in accordance with bond covenants.

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

Interest on Bonds

Interest on the Series 2014 D Bonds is payable semi-annually on April 1 and October 1, and the principal is payable in total on October 1, 2033. The Government is responsible for all principal and interest payments on the Series 2014 D Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Interest on Bonds (continued)

Interest on the Series 2014 C Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2014 C Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest on the Series 2014 A Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2014 A Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest on the Series 2012 C Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 C Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

Interest on the Series 2012 A and B Bonds is payable semi-annually on April 1 and October 1, and the principal is payable annually on October 1. The Government is responsible for all principal and interest payments on the Series 2012 A and B Bonds. The principal and interest payments on October 1 are funded by the Gross Receipts Taxes, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by Gross Receipts Taxes.

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Interest on Bonds (continued)

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

Interest expense related to bonds payable during the fiscal year ended September 30, 2016, was as follows (in thousands):

Series 2014 D Revenue Bonds	$	338
Series 2014 C Revenue Bonds		12,066
Series 2014 A Revenue Bonds		2,408
Series 2012 C Revenue Bonds		1,514
Series 2012 A and B Revenue and Refunding Bonds		8,898
Series 2006 A Revenue Bonds		9,670
		34,894
Other interest expense mainly related to loans and notes payable outstanding		1,684
Total	$	36,578

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Interest on Bonds (continued)

Maturity dates and debt service payment requirements as of September 30, 2016, for the Gross Receipts Revenue Bonds are as follows (in thousands):

	Total Debt Services		
October 1	**Principal**	**Interest**	**Total**
2017	$ 24,525	$ 34,448	$ 58,973
2018	25,425	33,538	58,963
2019	26,205	32,475	58,680
2020	27,450	31,248	58,698
2021	28,690	29,982	58,672
2022-2026	176,325	125,954	302,279
2027-2031	229,200	75,171	304,371
2032-2036	157,435	18,514	175,949
2037-2041	13,580	4,843	18,423
2042-2045	13,475	1,264	14,739
	$ 722,310	$ 387,437	$ 1,109,747

The Series 2014 D Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2014 D Bonds	Price
Any time prior to maturity	100% Make-Whole Redemption Price

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Debt Service Requirements on Bonds (continued)

The Series 2014 C Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2014 C Bonds	Price
October 1, 2024 and thereafter	100%

The Series 2014 A Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2014 A Bonds	Price
October 1, 2024 and thereafter	100%

The Series 2012 C Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2012 C Bonds	Price
October 1, 2030 and thereafter	100%

6. Bonds Payable (continued)

Gross Receipts Revenue Bonds (continued)

Debt Service Requirements on Bonds (continued)

The 2012 Series A and B Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2012 A and B Bonds	Price
October 1, 2032 (Series 2012 A)	100%
October 1, 2027 (Series 2012 B)	Make-Whole Redemption Price

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

Series 2006 A Bonds	Price
October 1, 2016 and thereafter	100%

Federal- Aid Highway Revenue Bonds

A summary of Federal- Aid Highway Revenue bond activity for the fiscal ended September 30, 2016, follows (in thousands):

	Bonds Outstanding 9/30/2015	New Issuances	Debt Payments	Refunded	Bonds Outstanding 9/30/2016
			(In thousands)		
Series 2015 Grant Anticipation Revenue Bonds	$ –	$ 89,880	$ (4,465)	$ –	$ 85,415
Total	$ –	$ 89,880	$ (4,465)	$ –	$ 85,415

6. Bonds Payable (continued)

Federal- Aid Highway Revenue Bonds (continued)

Bonds payable at September 30, 2016, in which federal arbitrage regulations apply, are comprised of the following (in thousands):

Series 2015 Grant Anticipation Revenue Bonds	
Interest at 3.00% to 5.00%	$ 85,415
Total bonds payable	85,415
Less: Current portion	(3,335)
More: Unamortized bond premiums and discounts, net	10,708
Long-term portion of bonds payable	$ 92,788

On December 15, 2015, the Authority issued the Series 2015 Grant Anticipation Revenue Bonds (the "Series 2015 Bonds"), the proceeds of which amounted to $89,880,000. These bonds are secured by a lien on a security interest in, the Trust Estate, which includes, all rights and interests in (i) the Federal Highway Grant Revenues, (ii) subject to the limitations set forth in the Indenture, the Transportation Trust Fund and the Pledged Transportation Trust Fund Revenues, (iii) the amounts on deposit in certain funds and accounts created under the Indenture, including Debt Service Reserve Fund and (iv) the Loan Agreement and the Loan Note The bonds are limited special obligations of the Authority. The Series 2015 Grant Anticipation Revenue Bonds were issued to (i) finance costs of certain highway capital projects, (ii) establish debt service reserves and (iii) pay the costs of issuance related to the Series 2015 Grant Anticipation Revenue Bonds. The Series 2015 Bonds mature from 2016 to 2033 at an interest rate of 3.00% to 5.00%.

6. Bonds Payable (continued)

Federal- Aid Highway Revenue Bonds (continued)

Pledged Funds

The Government has pledged the Federal Highway Grant Revenues, as described below, to the timely payment of principal and interest on the Series 2015 Bonds. The Federal Highway Administration's Puerto Rico Division and the Government's Department of Public Works and the Authority, have entered into a Memorandum of Understanding, dated December 9, 2015, documenting the procedures, roles, and responsibilities for (i) programming and authorizing the Approved Projects, (ii) supervising the construction of the Approved Projects, (iii) paying debt service on the Bonds and other Bond Related Charges, and (iv) establishing the funding, transfer, and disbursement process for the proceeds of the Bonds.

Interest on Bonds

Interest on the Series 2015 Bonds is payable semi-annually on March 1 and September 1, and principal is payable annually on September 1. The Government is responsible for all principal and interest payments on the Series 2015 Bonds. The principal and interest payments on September 1 are funded by the Federal Highway Grant Revenues, and the required investment to meet the April 1 interest payment is determined and deposited into the debt service reserve accounts, which is also funded by the Federal Highway Grant Revenues.

Interest expense related to matching fund revenue bonds payable during the period ended September 30, 2016 was as follows (in thousands):

Series 2015 Grant Anticipation Revenue Bonds	$	3,109
Total	$	3,109

6. Bonds Payable (continued)

Federal- Aid Highway Revenue Bonds (continued)

Debt Service Requirements on Bonds

Maturity dates and debt service payment requirements as of September 30, 2016, for the Federal Highway Grant Revenue Bonds are as follows (in thousands):

	Total Debt Services		
October 1	**Principal**	**Interest**	**Total**
2017	$ 3,335	$ 4,237	$ 7,572
2018	3,470	4,104	7,574
2019	3,645	3,931	7,576
2020	3,825	3,748	7,573
2021	4,015	3,557	7,572
2022-2026	23,305	14,564	37,869
2027-2031	29,735	8,126	37,861
2032-2033	14,085	1,065	15,150
	$ 85,415	$ 43,332	$ 128,747

The Series 2015 Bonds maturing after the dates below are redeemable at the option of the Authority, at prescribed redemption prices expressed as a percentage of the principal amount, as follows:

Series 2015 Bonds	**Price**
September 1, 2025 and thereafter	100%

7. Loans and Notes

Loans and notes outstanding for the fiscal year ended September 30, 2016, follows (in thousands):

	Loans Outstanding 9/30/2015	New Issuances	Debt Payments	Loans Outstanding 9/30/2016
		(In thousands)		
2015 A Revenue Anticipation Notes	$ 40,000	$ –	$ (40,000)	$ –
2015 E Notes	40,000	20,000	(60,000)	–
2013 B Notes	12,000	–	(2,000)	10,000
2013 A Notes	2,515	1,270	(1,585)	2,200
2011 B Revenue Anticipation Notes	5,816	–	(819)	4,997
2012 A TIF Notes	13,020	–	(276)	12,744
2009 A 911 Notes	–			–
WICO	31,877	834	(530)	32,181
Total	$ 145,228	$ 22,104	$ (105,210)	$ 62,122

On September 25, 2015, the Authority issued the Series 2015 A Property Tax Revenue Anticipation Notes (the "2015 A Notes") in the aggregate amount of $40,000,000. The purpose of the 2015 A Note is to provide a loan to the Government to (i) finance certain operating expenses and other financial obligations of the Government, (ii) establish debt service reserves, and (iii) pay loan issuance costs. The 2015 A Notes have a maturity date of September 30, 2017. Principal is payable in twenty-three (23) consecutive monthly installments commencing on November 2, 2016. Interest is assessed monthly at 50 points above the prime rate, as reported by the Wall Street Journal bank survey. As of September 30, 2016, the Government had repaid the full amount of the Notes.

7. Loans and Notes (continued)

On December 4, 2014, the Authority issued the Subordinate Lien Revenue Anticipation Notes Series 2014 E (Virgin Islands Gross Receipts Taxes Loan Note), in the aggregate amount of $40,000,000 (the "2014 E Notes"). The purpose of the 2014 E Notes is to provide a loan to the Government to (i) provide funds for any purpose for which the Government is authorized to use and expend monies, including but not limited to current expenses, capital expenditures, and discharge of any obligations of the Government, and (ii) pay the costs of issuance of the Series 2014 E Notes. On December 18, 2015, the Authority withdrew an additional $20,000,000 from the Subordinate Lien Revenue Anticipation Notes Series 2014 E (Virgin Islands Gross Receipts Taxes Loan Note), bringing the total loan to $60,000,000. As of September 30, 2016, the Government had repaid the full amount of the notes.

On September 12, 2014, the Authority issued the Subordinate Lien Revenue Notes, Series 2014 B (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $14,000,000 (the "2014 B Notes"). The proceeds of the Series 2014 B Notes were loaned to the Government under the same terms, for the purposes of (i) financing general obligations of the Government, and (ii) paying certain costs of issuing the 2014 B Notes. Principal is payable in eighty-four (84) consecutive monthly principal installments commencing on November 1, 2014. Interest is assessed at 375 points above the 90-day LIBOR rate.

On May 14, 2013, the Authority issued the Subordinate Lien Revenue Notes, Series 2013 A (Virgin Islands Gross Receipts Taxes Loan Note) in the aggregate amount of $6,700,000 (the "2013 A Notes"). The proceeds of the Series 2013 A Notes were loaned to the Government 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 2013 A Notes. Principal and interest are paid in monthly installments following each respective draw and continuing thereafter for thirty-five (35) consecutive monthly principal installments. Interest is assessed at 375 points above the 90-day LIBOR rate. At September 30, 2016, the Authority had drawn $6.7 million of loan funds and repaid $4.5 million.

On September 24, 2012, the Authority authorized an extension of the maturity date on the Series 2009 A TIF Notes, from October 1, 2015 to October 1, 2017, which was then converted to the Series 2012 A term loan note (the "2012 A TIF Notes"). The Authority sold $13,700,000 in 2012 A TIF Notes to the local bank, and loaned that amount to the Government.

7. Loans and Notes (continued)

On November 14, 2011, the Authority entered into a Property Tax Revenue Anticipation Note Loan Agreement (the "2011 B Revenue Anticipation Notes"). Under the terms of the Loan Agreement, the Employees' Retirement System of the Government will loan the Authority up to $13,000,000. The purpose of the 2011 B Revenue Anticipation Notes is secured by Property Tax revenue up to and including tax year 2005 to provide a loan to the Government to finance (i) payments made by the Government to government employees who elected to retire under the Retirement Incentive Program, (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 financing is provided under the 2011 Economic Stability Act enacted in July 2011 by the Government. The 2011 B Revenue Anticipation Notes have a term of five years, with interest rate of 4.91% and a maturity date of December 15, 2016. After the five-year term of the 2011 B Revenue Anticipation Notes, the loan will convert to a term loan not to exceed two years and secured by Gross Receipts tax revenue.

On September 25, 2009, the Authority entered into a Bond Anticipation Note Purchase Agreement with a local bank. Under the terms of the Note Purchase Agreement, the bank will purchase up to $15,700,000 in federally taxable Bond Anticipation Notes (the "2009 A TIF Notes") issued by the Authority. The purpose of the Series 2009 A TIF Notes is to provide a loan to the Government (the "Series 2009 A Tax Increment Revenue Loan Note") to finance the development of a shopping complex on the island of St. Croix. The financing is provided under Tax Increment Financing legislation enacted in October 2008 by the Government. Both the 2009 A TIF Notes and the Series 2009 Tax Increment Revenue Loan Note have a term of three years, maturing on October 1, 2012 with interest of 300 points above the J.P. Morgan Chase Prime Rate or 6.25%, whichever is higher. Under the terms of the 2009 A TIF Notes, the Authority may issue Tax Increment Revenue Bonds to defease the debt prior to that date. The proceeds were used to: (i) fund a capitalized interest account, (ii) pay costs of issuance, and (iii) fund the first phase of the development of the shopping complex.

Over the last five years WICO's operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and also by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Ports Authority. This situation is compounded by a minimum contribution in lieu of taxes of $700,000, regardless of the operating results.

7. Loans and Notes (continued)

These situations have resulted in a deficit in working capital (current assets less current liabilities) of approximately $2.4 million for the year ended September 30, 2016. Furthermore, these situations also caused a deficit in unrestricted net position of approximately $4.6 million for the year ended September 30, 2016.

On October 18, 2013, WICO finalized an agreement to refinance the existing Banco Popular loan to $28,517,391 at the effective interest rate of 6.18% per annum. The loan has an interest only repayment period of twelve months from issue date. Additionally, the payments are based on a 25-year amortization, with a final maturity in six (6) years. The final loan payment is a balloon payment of the outstanding principal balance, plus unpaid interest accrued and fees to the date of final payment. WICO's intent is to refinance the remaining outstanding debt prior to maturity of the note.

On November 12, 2014, WICO finalized an interim financing agreement to procure a loan payable to Banco Popular de Puerto Rico. The agreement provides for Banco Popular de Puerto Rico to extend a loan to WICO in the amount of approximately of $3,750,000 bearing interest at 6.75% per annum. The loan has an interest-only repayment period of twelve (12) months from issue date. Additionally, the payments are based on a 25-year amortization, with a final maturity in six (6) years. The interim financing provides additional funding to initiate Phase II WICO pier construction projects.

On March 11, 2015, the Board of the West Indian Company Ltd. announced their decision to suspend WICO's plans for a new cruise ship pier in downtown St. Thomas. The WICO Chairman of the Board, members of the board and executive staff continue to work diligently and expeditiously with the Virgin Islands Port Authority, members of the legislature, the community and the Company's cruise partners to identify a more feasible location for this new pier.

In March 2016, WICO negotiated and secured a non-revolving line of credit and conversion to commercial loan, in the amount of approximately $11.6 million with the Bank. The proceeds of this line of credit are to assist with the refurbishment and development of WICO's dock.

7. Loans and Notes (continued)

Construction was delayed due to unforeseen conditions that required reengineering, resulting in WICO requesting an extension of maturity date on the $11.6 million. On March 10, 2017, Banco Popular approved the Company's request to extend the maturity date of the note from March 29, 2017, to the new date of July 31, 2017, subsequent to June 15, 2017, which is the date the project was completed. The extension of the maturity date of the note means that the closing on the consolidated loan will also be deferred until July 31, 2017, or the date WICO and Banco Popular can mutually agree upon after completion of the project.

At September 30, 2016, the balance drawn on the $11.6 million note was approximately $835 thousand. The short-term and long-term portion of the outstanding debt for the $11.6 million note reported in the Financial Statements is an evaluation based on the draw-downs disbursed, per the current loan account statements received from Banco Popular and the annual interest rate assessed on the note, per the loan agreement.

The five-year amortization payment schedule displayed is limited to the indebtedness and applicable interest rates as presented in the description of the outstanding 2013, 2014 and 2016 loan balances and are subject to change upon consolidation of the $11.6 million note to the previous loans and based on the actual closing date of the consolidated loan.

Principal payments for long-term debt for the five years subsequent to September 30, 2016, are as follows:

Year ending September 30,	Principal	Interest	Total
2017	$ 708,732	$ 2,043,470	$ 2,752,202
2018	1,374,077	1,917,033	3,291,110
2019	692,680	1,860,892	2,553,572
2020	737,153	1,816,418	2,553,571
2021	784,485	1,769,087	2,553,572
2022-2026	4,745,961	8,021,898	12,767,859
2027-2031	6,478,839	6,289,020	12,767,859
2032-2036	8,845,125	3,922,733	12,767,858
2037-2041	7,814,011	804,206	8,618,217
Thereafter	–	–	–
Total	$ 32,181,063	$ 28,444,757	$ 60,625,820

7. Loans and Notes (continued)

During the year ended September 30, 2016, WICO did not comply with the debt service coverage and debt service reserve requirements, which requires that WICO meet debt service coverage targets and maintain sufficient cash for one year's debt service. The debt service coverage target was not met by $768,596, an amount which WICO will deposit upon the Bank's review and evaluation of WICO's audited financial statements. This is not considered an event of default under the loan agreement. WICO complied with the debt service coverage and debt service reserve requirements during the year ended September 30, 2015.

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

Pledged Funds

The Government has pledged Property Tax Revenue to the timely payment of the principal and interest on the 2011 B Loan. Surplus property tax receipts will be deposited into the Special Real Property Tax Receipts Fund account in accordance with the Loan Agreement.

The Government has pledged Island Crossings Incremental Tax Revenue and proceeds of the anticipated Tax Increment Revenue Bond Anticipation Note to the timely payment of the principal and interest on the 2012 A Loan. Incremental Tax Revenue will be deposited into the Island Crossing Tax Increment Trust account in accordance with the Loan Agreement.

The Authority has pledged WICO revenues to the timely payment of principal and interest of the loan. Interest expense during the fiscal year ended September 30, 2016, was $2 million.

7. Loans and Notes (continued)

Pledged Funds (continued)

Future minimum payments of principal for the five years subsequent to September 30, 2016, and thereafter, are as follows:

Fiscal Year	2014 B GRT Loan Note	2013 A Revenue Loan Note	2011 B Revenue Anticipation Note	2012 A TIF Bond Anticipation Note	WICO
2017	$ 2,000,000	$ 1,346,666	$ 4,996,954	$ 295,212	$ 708,732
2018	2,000,000	500,276	–	12,449,279	1,404,255
2019	2,000,000	352,780	–	–	701,594
2020	2,000,000	–	–	–	746,640
2021	2,000,000	–	–	–	794,582
Thereafter	–	–	–	–	27,825,260
	10,000,000	2,199,722	4,996,954	12,744,491	32,181,063
Less current debt	2,000,000	1,346,666	4,996,954	295,212	708,732
Total	$ 8,000,000	$ 853,056	$ –	$ 12,449,279	$ 31,472,331

8. Federal Grants

On December 9, 2015, PFA and the Government of the Virgin Islands entered into a Memorandum of Understanding with the Federal Highway Administration, Puerto Rico Division which documents the procedures, roles, and responsibilities for (i) programming and authorizing the approved projects for the Series 2015 Bonds, (ii) supervising the construction of the approved projects, and (iii) paying debt service for the bonds. Under federal legal authority, eligible debt service costs may be reimbursed using Federal Highway Administration funding, subject to the amount of funding provided to the Virgin Islands by the Federal government. For the year ended September 30, 2016, no federal funding was received for debt service requirements for the Series 2015 Bonds.

9. Commitments

Future Minimum Lease Payments

The Authority entered into a twenty-year lease for a property in St. Croix from February 15, 1996 through February 15, 2016 and which was subsequently renewed for an additional twenty years, through February 15, 2036. In July 2015, the Authority entered into a five-year lease agreement to rent office space on the island of St. Croix at a monthly rent of $3,164 with annual increases of no more than 3%.

WICO leases several warehouse and land to commercial businesses for the generation of income. The cost and carrying amount of leased property as of September 30, 2016, was approximately $4.6 million.

In 2012, the viNGN entered into a six-year lease for offices owned by WICO, for the period of January 1, 2012 - December 31, 2017 at a monthly rate of $12,000. The lease was amended by reducing monthly lease payments to $9,600, effective October 1, 2016 through the remainder of the lease term. In 2015, viNGN entered into a five-year warehouse lease, from September 1, 2015 through August 31, 2020, at a rate of $7,500 monthly. In 2016, viNGN entered into a second warehouse lease for three years, from November 1, 2015 through October 31, 2018 for $5,192 per month. During the same year, viNGN also entered into a three-year lease for additional office space from June 1, 2016 to May 31, 2018.

Future minimum lease payments for the remaining fiscal years are as follows:

	PFA	WICO	viNGN
2017	$ 108,443	$ 819,803	$ 296,304
2018	109,596	739,353	188,304
2019	110,784	686,894	95,192
2020	112,007	685,750	–
2021	94,928	715,000	–
Thereafter	1,122,008	–	–
Total future minimum payments	$ 1,657,765	$ 3,646,800	$ 579,800

9. Commitments (continued)

Federal Grants

On September 30, 2011, the Virgin Islands Next Generation Network entered into a Memorandum of Agreement ("MoA") with the Virgin Islands Water and Power Authority ("WAPA"), an autonomous instrumentality of the Government. The term of the MoA is twenty-five (25) years, following execution and upon expiration of the initial twenty-five (25) years will be automatically renewed for two additional consecutive twenty-five (25) year terms unless either party provides a written notice of non-renewal to the other party not less than twelve (12) months but no sooner than twenty-four (24) months prior to the expiration of the original term of any additional term.

As part of the Broadband Expansion Project, Water and Power Authority (WAPA) provided in-kind contributions intended to satisfy a portion of the non-federal cost share requirement of the Comprehensive Community Infrastructure "CCI" grant. WAPA's in-kind contribution share consists of the use of certain WAPA facilities, equipment and communications infrastructure.

10. Contingencies

The Authority has loans receivable amounting to approximately $2.01 billion from the Government (see Note 4). The principal and interest to be paid by the Government to the Authority on the loans receivable is mainly derived from excise taxes on exported rum received by the Government and gross receipts taxes, as more fully described in Note 6 and Note 7 under Pledged Funds. The principal and interest is subsequently passed-through for payment of the Series 2015 A, Series 2014 D, Series 2014 C, Series B, Series 2014 A, Series 2013 B, Series 2013 A, Series 2012 C, Series 2012 A and B, Series 2012 A, Series 2010 A and B, Series 2009 A (Cruzan), Series 2009 A1, A2, B and C, Series 2009 A (Diageo), and Series 2006 A Bonds, and the Series 2014 B, Series 2013 B, Series 2013 A, Series 2012 A TIF, Series 2011 B, and Series 2011 A Notes.

10. Contingencies (continued)

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

Notwithstanding the Government's past financial difficulties, the Legislature of the United States Virgin Islands has not yet waived on or reduced the Molasses subsidy. If such an event should occur, the rum producers could experience a decrease in their operations, and therefore result in a reduction of the federal excise taxes returned to the Government by the United States Government. The collectability of the loans receivable from the Government is highly dependent on the ability of the Government in collecting these taxes. On December 18, 2015, Congress retroactively extended the $13.25 per proof gallon rum excise tax rate from January 1, 2015 through December 31, 2016 with the Protecting Americans from Tax Hikes (PATH) Act.

On July 11, 2014, the Virgin Islands Public Finance Authority was notified by the U.S. Virgin Islands Office of Inspector General and the U.S. Department of Interior's Office of Inspector General that they would be initiating a joint audit of the Virgin Islands Public Finance Authority, beginning on July 21, 2014. The audit is a routine audit of the Authority as a blended component unit of the Government, covering the fiscal years from 2010 through 2014.

On December 1, 2014, the Authority established a standby letter of credit with First Bank in the amount of $650,000 in connection with a guarantee provided to Delta Airlines by the Department of Tourism to provide airline service to the island of St. Croix. The letter of credit will expire on November 26, 2017.

On December 9, 2015, the Authority entered into a Memorandum of Understanding (MOU) with the Federal Highway Administration, Puerto Rico Division as part of the administration of the Series 2015 Bonds. Under the terms of the MOU the Authority is responsible for reviewing and approving certain documents related to approved projects, and providing the Trustee information regarding debt service requirement.

10. Contingencies (continued)

On June 30, 2016, Moody's Investors Service downgraded the ratings on the Authority's Matching Fund Senior Lien Bonds to B1 from Baa2, Subordinate Lien Bonds to B1 from Baa2, Subordinated Indenture (Diageo) Bonds to B2 from Baa3, and Subordinated Indenture (Cruzan) Bonds to B2 from Baa3. The ratings downgrades primarily reflect a closer alignment of these special tax ratings with the Government's general credit position. The reduction is also due to a reduction in rum shipments.

On December 1, 2016, S&P Global Ratings downgraded the ratings on the Authority's Gross Receipts Tax Bonds to B from BBB-. In a separate action, the rating agency also downgraded the Authority's Matching Fund Senior Lien Bonds to BB from BBB, and the Subordinate Lien Bonds to BB- from BBB-. The reduction is due to concerns over a weak economy and plans by the Authority to issue more debt.

On December 2, 2016, Fitch Ratings downgraded the Authority's Gross Receipts Tax Bonds to BB from BBB. It also downgraded the Authority's Matching Fund Senior Lien Bonds to BB from BBB, and Subordinate Lien Bonds to BB from BBB-. The reduction is due to the Government's general credit position.

In January 2017, Moody's Ratings downgraded the Authority's Matching Fund Revenue Bonds, as follows: Senior Lien Bonds to Caa1 from B1; Subordinate Lien Bonds to Caa1 from B1; Subordinated Indenture (Diageo) Bonds to Caa2 from B2; and Subordinated Indenture (Cruzan) Bonds to Caa2 from B2. During the same period, Fitch Ratings also downgraded the Authority's Matching Fund Revenue and Gross Receipts Tax debt to BB- from BB. Standard & Poor's also downgraded its rating on the Authority's senior-lien matching fund notes to B from BB and its rating on subordinate-lien matching fund notes, by two notches to B from BB- during January 2017. The rating agencies attributed the downgrades to concerns regarding the Government's liquidity.

The Authority is party to a Memorandum of Agreement with the Virgin Islands Department of Education to administer $5 million in funds appropriated by the Virgin Islands Legislature to be expended as follows: (i) the development of engineering specifications and plans for the Virgin Islands public schools and (ii) repairs, renovations and upgrades at specified Virgin Islands public schools. The agreement was executed on September 28, 2007. As of September 30, 2016, the Authority had made outlays from the funds, net of interest earnings of $5 million.

10. Contingencies (continued)

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

11. Concentration of Risk

All of the matching fund revenues are derived from federal excise taxation of the sale of rum produced in the Virgin Islands. For every proof gallon of rum produced in the Virgin Islands and exported to the U.S. mainland, $10.50 is returned to the territory. In 1999, and as extended in subsequent years, the excise tax rebate has been temporarily increased to $13.25 per proof gallon. Rum production and exportation is by two producers (Cruzan & Diageo).

Customers representing more than 10% of total revenues for the West Indian Company during the year ended September 30, 2016, are as follows:

Carnival Cruise Line	41%
Royal Caribbean Cruise Line	25%
Norwegian Cruise Line	24%

12. Pension Plan

The Authority has implemented the provisions of GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27, as amended by GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68. Following is a description of the pension plan and accounting for pension expense, liabilities, and deferred outflows/inflows of resources.

12. Pension Plan (continued)

Plan Description

Full time employees of the Authority are members the Employees' Retirement System of the Government of the Virgin Islands (GERS), a cost sharing, multiple-employer, defined benefit pension plan (the plan) established as of October 1, 1959 Title 3, Chapter 27 of the V.I. Code to provide retirement, death, and disability benefits. Benefits may be extended to beneficiaries of plan members. The plan covers all employees of the Government except employees compensated on a contract fee basis, casual, per diem or provisional and part time employees who work less than 20 hours per week. Persons over the age of 55 may opt out of the plan by providing formal notification to the plan. Vesting of benefits occurs after 10 years of service. Benefits may be extended to beneficiaries of plan members.

There are two tiers within the plan:

Tier I: Employees hired prior to September 30, 2005
Tier II: Employees hired on or after October 1, 2005

Regular employees who have completed 30 years of credited service or have attained age 60 with at least 10 years of credited service are eligible for a full service retirement annuity. Members who are considered "safety employees" as defined in the Code, are eligible for full retirement benefits when they have earned at least 20 years of service or have reached the age of 55 with at least 10 years of credited service. Regular and safety employees who have attained age 50 with at least 10 years of credited service may elect to retire early with a reduced benefit.

The monthly annuity benefit payment is determined by applying a stipulated benefit ratio to the member's average compensation. Average compensation for Tier I members is determined by averaging the five highest years of salary the member earned within the last ten years of service, subject to the maximum salary limitation in effect during such service. Average compensation for Tier II members is determined by averaging the most recent five years of service, subject to the maximum salary limitations in effect during the service. The maximum annual salary that can be used in this computation is $65,000, except for senators and judges, whose actual annual salary is used.

12. Pension Plan (continued)

Contribution Information

Contributions to GERS are established by the Board of Trustees of GERS. The Government's required contribution for Tier I and Tier II members through December 31, 2015 was 20.5% of the member's annual salary. Contributions to the pension plan from the Authority were $108,738 for the year ended September 30, 2016.

Effective January 1, 2016, Tier I member contributions increased by 1% to 10% of annual salary for regular employees. Member contributions will increase an additional 1% on January 1, 2017.

Effective January 1, 2016, Tier II member contributions increased by 1% to 10.5% of annual salary for regular employees, and will increase an additional 1% on January 1, 2017.

Prior to June 29, 2000, member contributions were refundable without interest upon withdrawal from employment before retirement. Effective July 1, 2009, GERS Board of Trustees approved an effective annual interest rate on refunded contributions of 2% per annum.

Additional Information Regarding the Pension Plan

To obtain additional information regarding the pension plan, requests for information may be made to: http://www.usvigers.com/benefits/actuarialreport.aspx.

Pension Plan Expense

The Public Finance Authority's proportionate share of pension expense is computed based on the percentage of actual employer contributions determined in accordance with Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). Pension expense, reported for the year ended September 30, 2016, amounted to $387 thousand:

12. Pension Plan (continued)

Pension Liability

The net pension liability of the Authority reported as of September 30, 2016, was as follows:

Total Net Pension Liability of the Plan	Public Finance Authority Proportionate Share Percentage	Public Finance Authority Pension Liability
$4,071,660,837	0.1029%	$4,188,003

The net pension liability at September 30, 2016, was measured as of September 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Authority's proportional share of the net pension liability was $4.2 million or 0.1029% of the system-wide liability and 897% of the Authority's covered-employee payroll, amounting to $467,034. At September 30, 2016, the Authority's proportion decreased 229% from its proportion measured as of September 30, 2015.

Deferred Outflows and Inflows of Resources

In computing the net pension liability, consideration was given to differences between expected and actual experience with regard to economic or demographic factors in the measurement of the total pension liability and changes of assumptions about future economic or demographic factors or other inputs are reported as deferred outflows of resources related to pensions.

12. Pension Plan (continued)

Deferred Outflows and Inflows of Resources (continued)

Following is a schedule of deferred outflows of resources and deferred inflows of resources allocated to the Authority in the computation of net pension liability:

Public Finance Authority	**Deferred Outflows**	**Deferred Inflows**
Difference between expected and actual experience	$ 106,332	$ –
Net difference between projected and actual investment earnings on pension plan investments	78,187	–
Changes in assumptions	776,483	–
Changes in proportion and differences between contributions and proportional share of contributions	–	–
Contributions subsequent to measurement date	108,738	221,277
Total deferred outflows and inflows of resources	$1,069,740	$221,277

Amounts reported as deferred outflows, inclusive of contributions made after the measurement date, will be recognized in pension expense as follows:

Year Ending September 30:	**Amortization of Collective Deferred Outflows**
2016	$ 245,251
2017	245,251
2018	245,251
2019	175,566
2020	158,421
Total deferred net outflows of resources	$1,069,740

12. Pension Plan (continued)

Actuarial Assumptions

Actuarial Assumptions used in the computation of the total pension liability were as follows:

Valuation date:	October 1, 2015
Measurement date:	September 30, 2015
Inflation:	2.50%
Salary increases:	3.25% including inflation
Investment rate of return:	3.84% net of pension plan investment expense, including inflation
Mortality rates:	RP-2014 Blue Collar Healthy Annuitant and RP-2014 Disabled Retiree Mortality Table
Funding method:	Entry Age Normal Cost using the level percent of salary funding method

Investment Rate of Return

The long-term expected rate of return of 7.0% on pension plan investments was determined using the building-block method in which best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

12. Pension Plan (continued)

Investment Rate of Return (continued)

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the measurement date of September 30, 2015, are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Inflows**
Domestic Equity	28%	6.82%
International Equity	10%	8.44%
Fixed Income	26%	1.72%
Cash	4%	1.12%
Alternatives	32%	6.50%
Total Asset Class	100%	

Discount Rate

The discount rate used to measure total pension liability was 3.84% as of September 30, 2015 and 4.42% as of September 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate, including the increases in the employee contribution rates effective January 1, 2017. Using the above assumptions, GERS fiduciary net position is not projected to be available to make all projected future benefit payments to current plan members. The plan has used a long-term expected rate of return on pension plan investments of 7.0% that was applied to all periods of projected benefit payments that are covered by projected assets. For periods where projected future benefit payments are not covered by projected assets, the yield on a 20-year AA Municipal Bond Index was applied. As of September 30, 2015 and 2014, that rate was 3.71% and 4.11%, respectively.

12. Pension Plan (continued)

Sensitivity to Changes in the Discount Rate

Following is a schedule of net pension liability for the Authority calculated using the discount rate of 3.84%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.84%) or one percentage point higher (4.84%) than the current rate:

Proportionate Share for Public Finance Authority's	1% Decrease (2.84%)	Current Discount (3.84%)	1% Increase (4.84%)
Net pension liability	$4,894,904	$4,188,003	$3,605,047

Detailed information about the pension plan's fiduciary net position is available in the separately issued GERS financial report.

13. Due to Government of the United States Virgin Islands

Due to Government of the United States Virgin Islands represents funds held by the Authority on behalf of the Government for payment of construction projects and debt service payments. Due to Government of the United States Virgin Islands movement for the fiscal year ended September 30, 2016, follows:

	Debt Service Fund	Construction Fund
Beginning balance	$ 209,161,879	$ 219,740,578
Funds received for debt service	73,747,099	213,120,779
Debt service	(184,021,238)	–
Debt service - refunded amounts	–	–
Investment income (loss)	2,444,629	371,318
Issuance cost	(1,942,240)	(417,403)
Proceeds from the issuance of bonds	9,535,410	111,000,000
Bank fees	(541,243)	(2,558)
Other income (loss)	–	40,923
Capital outlays (including reimbursements)	–	(11,370,903)
General and administrative expenses	(31,005)	(3,500,000)
Transfers to escrow for defeased bonds	(7,293,030)	8,100,000
Interfund transfers	181,971,033	(184,329,891)
Transfer of funds to the Government of the U.S. Virgin Islands	–	(55,974,167)
Loan to viNGN	(2,500,000)	2,500,000
Transfers (to)/from rum producers	(75,455,984)	(500,000)
Ending balance	$ 205,075,310	$ 298,778,676

14. Blended Component Unit Reporting

The component units have the same fiscal year end as the Authority. Condensed financial statements for the major component units are presented below. To obtain audited financial statements for WICO or viNGN, please contact the Virgin Islands Public Finance Authority at 32 & 33 Kongens Gade, Government Hill, St. Thomas, U.S. Virgin Islands 00802.

(In thousands)	WICO	viNGN	KAMI	Total
Condensed information from Statement of Net Position				
Assets:				
Current assets	$ 8,083	$ 4,204	$ 1,594	$ 13,881
Capital assets, net of depreciation	44,605	76,884	4,544	126,033
Total assets	$ 52,688	$ 81,088	$ 6,138	$ 139,914
Liabilities:				
Current liabilities	$ 10,463	$ 283	$ 29	$ 10,775
Long-term portion of bonds outstanding	31,472	–	–	31,472
Other liabilities	–	36,651	688	37,339
Total liabilities	$ 41,935	$ 36,934	$ 717	$ 79,586
Net position:				
Net investment in capital assets	$ 12,424	$ 36,651	$ 4,544	$ 53,619
Restricted	2,974	–	–	2,974
Unrestricted	(4,645)	7,503	877	3,735
Total net position	$ 10,753	$ 44,154	$ 5,421	$ 60,328
Condensed information from Statement of Revenues, Expenses and and Changes in Net Position				
Operating revenues	$ 9,144	$ 3,527	$ 615	$ 13,286
Operating expenses	(6,887)	(3,951)	(534)	(11,372)
Depreciation and amortization	(3,037)	(4,948)	(484)	(8,469)
Operating loss	(780)	(5,372)	(403)	(6,555)
Nonoperating (expenses) income and other changes in net position	(2,585)	10	–	(2,575)
Change in net position	(3,365)	(5,362)	(403)	(9,130)
Beginning net position	14,118	49,516	5,824	69,458
Ending net position	$ 10,753	$ 44,154	$ 5,421	$ 60,328

14. Blended Component Unit Reporting (continued)

(In thousands)	WICO	viNGN	KAMI
Condensed Statement of Cash Flows			
Net cash provided by (used in):			
Operating activities	$ 4,429	$ (1,803)	$ 35
Noncapital financing activities	–	–	33
Capital and related financing activities	(5,285)	456	(45)
Investing activities	8	9	–
	(848)	(1,338)	23
Beginning cash and cash equivalents	6,416	4,652	1,504
Ending cash and cash equivalents	$ 5,568	$ 3,314	$ 1,527

On August 9, 2016, the Authority received all of the shares of Lonesome Dove Petroleum Co. ("Lonesome Dove") a Texas corporation that was in receivership to satisfy tax obligations due to the Territory amounting to approximately $30.8 million. In accordance with Act 7864, and with the approval of the court appointed receiver, the ownership of the corporation was transferred to the Authority. The financial position of Lonesome Dove as of September 30, 2016, and its operations for the year then ended were immaterial to the Authority's financial statements and therefore not included as a component unit as of and for the year ended September 30, 2016. Following guidance provided by GASB Statement No. 14, The Financial Reporting Entity, Lonesome Dove will be reported as a component unit of the Authority in fiscal year 2017. By accepting the shares in Lonesome Dove, the Authority has accepted responsibility to manage the activities of the corporation, to remit tax payments to the Government, and to submit annual reports to the Legislature by May 1st of each year.

15. Segment Information

The financial statements of the PFA contain one segment, The West Indian Company ("WICO") that has debt outstanding, with a revenue stream pledged in support of the debt. In addition, the activities are required to be accounted for separately. WICO is a wholly owned port facility including a cruise ship pier, shopping mall and rental complex on the island of St. Thomas. WICO's operating revenues consist of agency fees charged to cruise lines and rental income.

15. Segment Information (continued)

Over the last three years WICO's operations have been negatively affected by the reduction in cruise ship traffic in its facilities caused in part by the economic recession and by the relocation of cruise ships from its facilities to the nearby Crown Bay facility owned by the Virgin Islands Ports Authority. This situation is compounded by a minimum contribution in lieu of taxes of $700,000, regardless of the operating results.

16. Financial Condition

In January and March 2017, the matching fund bonds and gross receipts tax bonds of the Authority experienced credit rating downgrades due to the financial and budgetary challenges experienced by the Government. Such downgrades are likely to negatively impact the Authority and Government's ability to access credit markets or to access them at supportable rates in the foreseeable future. In March, 2017, the Legislature addressed the general fund deficits with the enactment of the Virgin Islands Revenue Enhancement and Economic Recovery Act, a five year plan of revenue initiatives and cost-cutting measures. The challenge of unfunded pension liabilities was addressed through increases in the contribution rates of the employers and members participating in the Government's multiple employer cost-sharing pension plan. The administrator of the pension plan, GERS, is an independent and separate agency of the Government. There can be no assurance that the Government's actions will be sufficient to enable the Authority to refinance or repay its obligations. To date, revenues pledged for debt service have not been significantly impacted by the Government's financial condition and it is unknown what impact, if any, the Government's financial condition will have on the Authority. While the Bonds and Notes issued by the Authority are supported by the Government's pledged revenues, the Authority is highly dependent on the Government repaying its loans to the Authority for the Authority to repay its obligations. The Government is in a significant net deficit position and currently faces significant fiscal, economic, and liquidity challenges related to the increasing net deficit, high levels of debt and unfunded pension obligations.

17. Subsequent Events

On October 1, 2016, the Authority issued two Surbordinate Lien Revenue Notes, Series 2016A (Virgin Islands Gross Receipts Taxes Loan Notes-Emergency First Responder Project), collectively the "Series 2016A Notes" in an aggregate amount of up to $10,000,000 to: (i) finance the acquisition of public safety vehicles and related equipment (the "Series 2016A-1 Project"), and (ii) to finance certain consulting services for the improvement of public safety and security in the Virgin Islands, (the "Series 2016A-2 Project"), and (iii) to pay certain costs incidental to the issuance of the Series 2016A Notes. The Series 2016A Notes mature in 2021 with variable interest rates based on the 90-day LIBOR plus 375 basis points. The Series 2016A Notes are subject to prepayment by the Authority in whole or in part at any time upon 100% payment of the outstanding principal plus interest accrued to the prepayment date. On October 7, 2016, initial draws amounted to $1,244,367 from the Series 2016A-1 Project Note, and $1,226,253 from the Series 2016A-2 Project Note were drawn from the $10 million note. On May 3, 2017, a second draw of $4,100,000 was taken toward the Series 2016A-1 Project Note.

On October 26, 2016, the Authority entered into a short-term, ninety (90) day loan agreement with the Virgin Islands Waste Management Authority (VIWMA) in the amount of $750 thousand to provide working capital to VIWMA. The loan does not bear interest and was contingent on the Authority entering into a memorandum of understanding (MOU) with VIWMA.

On October 26, 2016, the Authority entered into a MOU with VIWMA. The MOU was entered into to comply with and facilitate a September 28, 2016 order by the District Court for the Authority to establish a Landfill/Solid Waste Remediate Fund ("the Fund") to pay for urgent projects at the landfills required to be completed under Consent Decrees entered into with the Environmental Protection Agency. The order by the District Court stipulates that the Fund be managed by the Authority through a separately established escrow account in the amount of $3,103,909, and that all landfill projects be completed on or before September 30, 2018.

On November 29, 2016, the Authority received a recovery of an arbitrage rebate on the Series 2004 A Bonds from the U.S. Treasury in the amount of $1,727,597. This recovery represents the return of an excess rebate that was paid by the Authority to the U.S. Treasury due to a decline in the investment experience of the bonds in periods subsequent to the original payment of arbitrage. There are no federal restrictions on the use of the rebate overpayment, and the amount is available to fund projects approved by the Legislature or the Authority.

17. Subsequent Events (continued)

The West Indian Company, Ltd. (WICO) negotiated with Banco Popular to obtain a non-revolving line of credit in the amount of $11.6 million, scheduled to be converted to a commercial term loan upon completion of certain dock construction and improvements expected to be completed by March 29, 2017. Due to delays in construction, Banco Popular and WICO executed a loan modification agreement on May 10, 2017 which grants an extension of the conversion of the line of credit through July 31, 2017. Upon completion of all construction, the outstanding loans with Banco Popular are expected to amount to approximately $42.8 million and will be consolidated by the bank into one commercial loan.

WICO's outstanding balance of unpaid payments in lieu of taxes (PILOT) owed to the Government for fiscal years 2008 through 2016 amounted to $6.65 million as of September 30, 2016. In April, 2017 legislation was introduced to the Legislature to accept the transfer of an historic property located in Estate Catherineberg to the Government as a public decorative art museum as part of a negotiated settlement of the amount due. The legislation also provided for WICO to pay the costs of transferring and converting the property to a museum, to reduce the unpaid PILOT amount owed, and to renegotiate annual PILOT payments. This legislation was vetoed by the Governor. WICO is continuing discussions with the Government to transfer the property as part of a negotiated reduction of the PILOT liability, and reduced annual PILOT payments.

Required Supplementary Information

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Schedule of Authority's Share of the Net Pension Liability

September 30, 2016

	2016*	**2015***
Authority's proportion of the NPL	**0.1029%**	0.1065%
Authority's proportionate share of the NPL	**$4,188,003**	$3,286,609
Authority's covered-employee payroll	**$ 475,468**	$ 467,034
Authority's proportionate share of the NPL as a percentage of its covered-employee payroll	**897%**	668.0%
Plan fiduciary net position as percentage of the total pension liability	**20%**	27%

* *The amounts presented for each fiscal year are as of the measurement date (September 30) of the previous year. This schedule is intended to show a 10 year trend. Information for years before 2014, is not available.*

Virgin Islands Public Finance Authority
(A Blended Component of the Government of the United States Virgin Islands)

Schedule of Authority's Contributions

September 30, 2016

	2016*	**2015***	**2014***
Statutorily required contributions	$108,738	$119,009	$89,496
Contributions in relation to the statutorily required contributions	108,738	119,009	89,496
Contribution deficiency (excess)	–	–	–
Covered-employee payroll	475,468	467,034	492,001
Contributions as a percentage of covered-employee payroll	22.87%	25.48%	18.19%

* *The amounts presented are for the fiscal year noted. This schedule is intended to show a 10 year trend. Information for years before 2014, is not available.*

Valuation Date: October 1, 2015

Measurement Date: September 30, 2015

Actuarially determined contribution rates are calculated as of September 30, 2015, one year prior to the end of the fiscal year in which contributions are reported, and applied to all periods included in the measurement.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost using the level percent of salary funding method
Amortization method	Level percentage of payroll
Remaining amortization period	20 years
Asset valuation method	Market value
Inflation	2.50%
Salary increases	3.25% including inflation
Investment rate of return	3.84%, net of pension plan investment expense, including inflation
Retirement age	65 for inactive vested participants
Mortality Rates	RP-2014 Blue Collar Healthy Annuitant and Employee Mortality tables with generational Projections from 2015 using scale MP 2015 Mortality rates

Other Report

Building a better
working world

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

The Board of Directors of
The USVI Public Finance Authority

We have audited, in accordance with the auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Virgin Islands Public Finance Authority (the Authority) as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 16, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst & Young LLP

June 16, 2017

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